After the Fed's move
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Mr Honda
Nobuhiko Kawamoto makes the best of it
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Emerging markets
Growth shifts to poorer countries
Survey: separate section

FINANCIAL TIMES

Europe's Business Newspaper   MONDAY FEBRUARY 7 1994

US and Germany warn Russia to respect borders

The US and Germany issued clear warnings to the new Russian government at the weekend not to seek to create any "spheres of influence or interest" beyond its borders.

Chancellor Helmut Kohl of Germany and William Perry, the new US defence secretary, spelt out their deep concern at any moves by Moscow to revive a nationalistic foreign policy in the former area of Soviet influence. Page 16

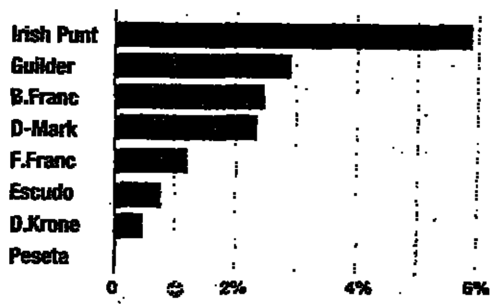
Northern workers praised: Employees in northern European countries such as Switzerland, the Netherlands, Germany and Belgium respond far more positively to their work situation than those in southern Europe, according to a survey of employee satisfaction. Page 6

Rabin unsure on peace talks: Israeli prime minister Yitzhak Rabin was considering whether to go ahead with today's planned meeting in Cairo on Palestinian self-rule between his foreign minister, Shimon Peres, and Yassir Arafat, chairman of the Palestine Liberation Organisation. Page 4

PM to see new Russian budget: A draft of Russia's 1994 budget, aimed at bringing monthly inflation down to less than 10 per cent by the end of the year, will be submitted to prime minister Victor Chernomyrdin today. Page 3

European Monetary System: The strength of the dollar at the end of last week caused the D-Mark to slip behind the Belgian franc to fourth position in the system's grid. All currencies, except for the Irish punt, gained ground against the Spanish peseta, the weakest member of the EMS. Currencies, Page 29

EMS: Grid February 4, 1994



The chart shows the member currencies of the exchange rate mechanism measured against the weakest currency in the system. Most of the currencies are permitted to fluctuate within 15 per cent of agreed central rates against the other members of the mechanism. The exceptions are the D-Mark and the guilder which move in a 2.25 per cent band.

Drug price cuts to be unveiled: Japanese drugs groups will today learn by how much the government intends to cut pharmaceutical prices. The companies expect reductions to average 6.5-7 per cent, further undermining growth of a sluggish Japanese medicines market. Page 4; Markets hit by devaluation and healthcare reforms, Page 4

Eastern Europe move by bank: The European Bank for Reconstruction and Development intends to increase its staff in eastern Europe and former Soviet Union in an attempt to bring its services closer to potential customers. Page 5

Crackdown on missionaries: China has tightened controls on foreign missionary activities and is seeking to strengthen measures against unauthorised religious practices. Page 4

Maclean Hunter: Uncertainty over the ownership of a block of shares in the Toronto-based publishing and cable TV group has put an obstacle in the way of the proposed bid by Rogers Communications, Canada's biggest cable TV operator. Page 17

EU expansion talks today: European Union foreign ministers meet in Brussels today to start the final stretch of negotiations aimed at bringing Austria, Sweden, Finland and Norway into the Union by January. Page 3

Beazer Homes, fourth largest UK housebuilder, plans to raise sufficient new money to leave it with "significant" net cash when it is floated next month. The extra money will help it to increase annual completions. Page 17

Tokyo near deal on stimulus plan: Japan's seven-party coalition appeared near to a compromise on a long-delayed economic package of tax cuts and government spending. Page 4

Rivals fight for bank: Two Portuguese entrepreneurs are lining up rival bids of more than Es100bn ($570m) to wrest control of Banco Totta e Acores, a leading Portuguese retail bank, from Banesto, the crisis-hit Spanish bank. Page 19; Banco Santander rises 17.8%, Page 19

Inspec Group, speciality UK chemicals company bought from British Petroleum by a management team for £40m ($60m) only 18 months ago, should be valued at over £100m when it floats on the stock market in the next two months. Page 18

Bullet-proof vests are to be issued to ambulance crews in Manchester, England, to protect them when they answer 999 calls in trouble-prone areas amid concern at the increasing level of violence faced by staff.

MIM, Australian mining company, has signed an agreement with International Musto Exploration of Vancouver to develop the rich Bajo de la Alumbrera deposit in Argentina. Page 19

Crash kills 40: At least 40 people were killed and dozens injured when a bus and a truck crashed head on and burst into flames in the southern Indian state of Kerala late on Saturday night.

Austria	Sch32	Greece	Dr350	Lux	LFr65	Qatar	QR13.00
Bahrain	Din1.250	Hong Kong	HK$18	Malta	Lm0.60	S.Arabia	SR11
Belgium	BFr65	Hungary	Ft185	Morocco	MDh15	Singapore	S$4.30
Bulgaria	Lev25.00	Iceland	Ikr215	Neth	Fl 4.00	Slovak Rp	KSL50
Cyprus	C£1.10	India	Rs60	Nigeria	Naira50	South Africa	R12.00
Czech Rp	CZK50	Israel	Shk6.90	Norway	Nkr17.00	Spain	Pta225
Denmark	DKr16	Italy	L3000	Oman	OR1.50	Sweden	SKr18
Egypt	E£5.00	Japan	Y500	Pakistan	Rs40	Switz	SFr3.30
Finland	FM15	Jordan	JD1.50	Philippines	Pso60	Syria	S£50.00
France	FFr9.00	Kuwait	Fils625	Poland	Zl32,000	Tunisia	Din1.500
Germany	DM3.50	Lebanon	US$1.50	Portugal	Esc225	Turkey	L13000
						UAE	Dh12.00

Markets expect turbulent week after US rate rise

By Patrick Harverson in New York

The world's financial markets will open today uncertain about the outlook for share and bond prices after Friday's steep fall on Wall St prompted by the Federal Reserve's decision to raise US interest rates for the first time for five years.

The Fed's shift, which marks a distinct change in the investment climate, caught the markets by surprise and prompted a 96-point plunge in the Dow Jones Industrial Average late on Friday as investors grew concerned that the increase might end the long bull run in stock markets in the US and elsewhere.

The decline was the largest one-day loss on Wall Street for more than two years.

European financial markets were braced for turbulence amid fears that further falls in European interest rates might be put on hold as the dollar strengthened.

Analysts predicted that European equity markets would take their cue from the sharp drop in US share prices, although most said they did not expect a fall on the scale of the 1987 crash.

The Fed's modest tightening of monetary policy was viewed as an attempt to make a pre-emptive move against inflation by slowing the pace of US economic expansion. In the past three quarters the economy has grown at

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an average annual rate of more than 4 per cent, which the central bank is likely to have viewed as potentially inflationary.

Wall Street is braced for short-term falls in US share prices in the next few weeks as investors use the Fed's rate increase as an opportunity to take some of the profits they earned during the US market's strong run in January.

Mr David Shulman, equity strategist at Salomon Brothers, said Friday's large drop in share prices was a "normal reaction" to a Fed tightening, and predicted fresh selling to come. "We are going to see a further winding down of the euphoria that has been gripping the market over the last few weeks."

A temporary downturn in the stock market is regarded as particularly likely if, as many on Wall Street expect, the Fed further tightens policy in the next few months to ensure that inflationary pressures do not build up in the economy.

Mr David Hale, chief economist at Kemper Securities in Chicago, predicted that the Fed would put up short-term interest rates from 3¼ per cent to 3¾ per cent or even 4 per cent, before the end of the year.

Yet most Wall Street analysts do not believe that the Fed's decision to tighten monetary policy, by pushing the bank overnight lending rate up from 3 per cent to 3¼ per cent, will provoke a sustained sell-off.

Many said investors would ultimately see the rate rise as positive for stock and bond markets, because it showed that the Fed was ready to combat the threat of inflation while avoiding serious damage to the prospects for economic growth in the US.

Economists at Donaldson, Lufkin & Jenrette, the Wall Street broking house, have told clients: "We do not expect a long-lasting effect on the stock market, as the negative effect of tighter monetary policy will be offset by the significant improvement taking place in the economy."

While stock and bond markets may temporarily decline in the wake of the Fed's rate increase, the dollar should gain strength from the move. The US currency rose against both the D-Mark and the Japanese yen on Friday, and is expected to appreciate further when foreign exchange trading opens in the Far East this morning. Typically, the dollar strengthens when US interest rates rise and European and Japanese rates are low or falling.

Martti Ahtisaari votes on his way to victory in Finland's presidential election, beating Elizabeth Rehn, the defence minister. Page 16

West still divided on air strikes in Bosnia

By Robert Mauthner in London and Our Foreign Staff

The western countries have united in condemnation of the latest Sarajevo shelling, in which 68 people were killed, but yesterday they were still a long way from agreeing on punitive air strikes against the Bosnian Serbs.

Mr Bill Clinton, the US president, called for an emergency meeting to discuss the US response to the outrage, at which all options including air strikes were to be considered.

However, Mr William Perry, the new US defence secretary, who flew back to Washington from Munich at short notice yesterday, emphasised that Washington would not launch air strikes without close consultations with western allies, which have 28,000 ground troops in Bosnia.

Mr Perry, who was sworn in as defence secretary only three days ago, said that a longer term view had to be taken of the situation in Bosnia. "If air strikes are act one of a new melodrama, what is act two? What is act three? What is the conclusion ?

"Any consideration of air strikes has to take into account that there are 28,000 peacekeepers on the ground, lightly armed, and not prepared to fight a war, surrounded by 200,000 combatants who are armed and are prepared to fight a war," said Mr Perry.

In Washington, Mr Clinton called upon the United Nations to identify those responsible for the shelling and directed Mr Warren Christopher, the secretary of state, to consult US allies on "appropriate next steps". All that Mr Christopher would say was that he did not rule out the use of air strikes against those deemed responsible. But the US remains opposed to sending its own ground troops to Bosnia.

Among the European Union countries, whose foreign ministers are due to meet in Brussels today, only Germany and Belgium came out clearly in favour of asking the UN to give the green light to Nato air strikes.

Continued on Page 16
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Perry warns Russia, Page 16

Clinton administration fires first shot in battle to fit spending within set limits

US budget for 1995 goes to Congress

By George Graham in Washington

The Clinton administration will send its $1,500bn budget for 1995 to Congress today, firing the opening shot in a tough battle to fit next year's government spending inside the limits set last summer.

For the first time for more than two decades the budget will cut discretionary spending – for which amounts are set in each year's budget – below the $543bn of the current fiscal year, which runs to the end of September.

However, mandatory spending on entitlement programmes such as social security and medical benefits for the elderly will continue to grow to absorb half of all federal government spending, with interest payments on the national debt accounting for almost a further 15 per cent.

The 1990 Budget Enforcement Act agreed with Congress by former president George Bush, coupled with the provisions of last year's five-year budget law, have placed a "hard freeze" on discretionary spending: the caps on such spending will not be adjusted to take account of inflation.

Those caps had already made it hard enough to put the budget together, but the administration has also had to find additional spending cuts to pay for the increased spending Mr Clinton has sought for favoured projects such as job training, education and children's immunisation programmes.

Administration budget officials have spent the last week explaining how painful it has been to keep spending inside last year's tight budget caps.

The Clinton proposals would kill outright 115 distinct programmes, ranging from lobster research and oilseed export subsidies to public library construction and drug abuse grants, for total savings of $3.25bn.

The defence budget will contribute nearly half of those savings, cancelling the last planned purchases of the H60 helicopter and the F16 fighter.

Other programmes to see funding cut severely include mass transit subsidies, rural electrification grants and heating aid for poor families.

Many of those programmes were listed for cuts last year but were saved by strong congressional support.

Helped by low interest rates and the upturn in the US economy in the second half of 1993, the federal budget deficit has dipped well below the levels predicted last summer when Congress passed, by a single vote, the five-year budget plan.

Mr Lloyd Bentsen, the Treasury secretary, said yesterday the deficit would drop to $171bn for the 1995 fiscal year and to $166bn the next year.

"We have our fiscal house in order, and finally, we have broken the back of deficits," Mr Bentsen said.

Italy's newest politician sets out his claim to leadership

Robert Graham on Silvio Berlusconi's change of role

Mr Silvio Berlusconi, the media magnate, yesterday staked his claim on the Italian leadership before a crowd of about 2,000 supporters gathered in Rome for the first convention of his movement, Forza Italia (Come On Italy!).

His message was simple. He represented the sole new face in politics. Italy's fortunes would revive within five years with him running the country. Italians would enjoy a "new miracle".

For Mr Berlusconi, the enemy to beat in the March elections is the left, led by the former communist Party of the Democratic Left (PDS). Defeating the left was the best guarantee of basic freedoms.

His values, he said, were based on the family and rooted in liberal democracy. Italy needed a state that worked for the citizen and encouraged, not penalised, the entrepreneur. He pledged to cut taxes, saying it was possible to reduce fiscal pressure by 1 percentage point a year.

Forza Italia's 40 point programme was the most detailed ever prepared by an Italian party to fight a general election, he claimed. It would be released on February 25, he said.

Having decided to leave his Fininvest business empire for politics only two weeks ago, Mr Berlusconi seemed still overawed by his new role. Standing on the podium backed by giant screen image projection and loud music, the overall impression was of a slick promotional package that dominated the man.

His style of speaking lacked the rhetoric and toughness of a politician or the timing of a public speaker. His performance was a mix between a company chairman talking to shareholders and a chat-show host searching for the invisible public beyond the studio audience.

Mr Berlusconi was careful to pay tribute to the populist Northern League for its historic role in breaking the mould of Italian politics. This olive branch, coupled with similar complimentary noises coming from the League congress in Bologna over the weekend, signalled that an alliance of the two was close. Suggestions of such a link brought loud applause from the Forza Italia delegates. So did the hints of linking with the neo-fascists.

A selection of Forza Italia parliamentary candidates were brought on stage – businessmen, farmers, the wife of a professional footballer and a Milan magistrate who had been involved in anti-corruption investigations. All had the same clean scrubbed look as Mr Berlusconi.

The delegates and supporters, double the number expected by the organisers, were also briefed by the movement's pollster, who produced statistics demonstrating the strength of Italians' faith in Mr Berlusconi.

There were almost 300 spots on Berlusconi television channels during January 15-28, the time when he announced his decision to enter politics. The marketing of Mr Berlusconi has begun. The product will be tested when he starts on the campaign trail later this week.

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Markets try to second-guess next Fed move

Michael Prowse explains Wall Street investors' rush to sell on Friday

The increase in US short-term interest rates on Friday marks the first change of direction in US monetary policy in five years.

In itself, a quarter-point increase in short-term rates, to 3¼ per cent, should have a negligible impact on the economy. It is not enough to restrain loan demand or to depress investment significantly. Given banks' fat margins, it does not warrant an increase in prime lending rates, currently 6 per cent. And it is likely to have only a marginal impact on mortgage rates.

But because policy has changed direction, a strong market reaction – Friday saw the biggest single-day fall in the Dow Jones Industrial Average in more than two years – was not surprising. The impact was all the greater because the tightening of policy occurred just after a sharp run-up in share prices, when many investors were bracing themselves for a correction.

In Washington, Mr Alan Greenspan, Federal Reserve chairman, won plaudits for personally announcing the change of policy. He was aiming to counter criticism on Capitol Hill of Fed secrecy and lack of accountability.

A Fed spokesman, however, was at pains to stress that Mr Greenspan's statement was not a precedent and would not necessarily be repeated.

The Fed normally makes a statement only when it moves the discount rate, which remains at 3 per cent. Financial markets are usually left to figure out whether it has altered its target for the federal funds rate – the cost of overnight money for banks – which rose a quarter point on Friday.

By speaking out, Mr Greenspan got "more bang for his buck". He enhanced the impact of what was a very mild tightening of policy. But the downside of candour was the stock market's negative reaction.

Since a single tightening move would be highly unusual, investors now have to decide how rapidly and to what level the Fed will raise rates. Mr Greenspan has a reputation for "gradualism". He believes monetary policy is best conducted in small, measured steps. Since the risk of inflation surging this year or next is slight, most economists believe rates will rise slowly – at most by about a quarter percentage point every three months.

"There will probably be no further action for several months," said Mr Leonard Santow, of the Wall Street firm, Griggs and Santow.

He expects another two tightening moves before the end of the year, taking the fed funds rate to about 3¾ per cent.

But some forecasters fear the economy is gathering momentum so rapidly the Fed will be forced to act more aggressively.

Payroll employment figures released on Friday were weaker than expected, but this reflected very cold weather and the Los Angeles earthquake.

Other recent figures point unequivocally to rapid growth, perhaps at an annual rate of 4 per cent this quarter and next. Buoyant data for factory orders, for example, indicate further strong advances in business investment. Residential housing soared in December. And there are early signs of nascent inflationary pressure: the purchasing managers' price index shot up last month.

Taking such data into account, Mr John Lipsky, chief economist at Salomon Brothers, predicts the Fed will push up short-term rates to 4 per cent as soon as mid-year. "There will be plenty more moves this year and next: markets are under-estimating the Fed's willingness to act," he warns.

Action this aggressive would not please the White House. Ms Laura Tyson, who chairs the Council of Economic Advisers, has indicated the administration's budget forecast, due today, will allow for a half-point increase in short rates this year. Senior administration officials believe anything more would choke off recovery.

As short-term rates rise, analysts expect a less-than-proportionate increase in longer-term rates, resulting in a flattening of the yield curve. This was already evident last week when bond yields rose, but by less than short rates. But if the Fed signals further tightening moves in coming months, it could crush inflation expectations, *causing yields on long* bonds to decline slightly.

Since most analysts expect only a modest rise in short rates, the US stock market should be fairly resilient. Investors will still have a strong incentive to hold stock and bond mutual funds, or other financial market instruments, rather than low-yielding bank deposits. But investment is driven by sentiment and since many analysts believed share prices were overvalued before the Fed moved, a bigger correction than justified on fundamentals cannot be ruled out.

The fact that the US has begun to raise rates while most other industrial countries are still cutting theirs should boost the dollar in coming months. Mr Lipsky at Salomon Brothers predicts that the dollar will climb nearly to DM1.90 this year against DM1.76 on *Friday*. But this is at the top end of Wall Street projections; many analysts fear the Fed's action will make the Bundesbank even more reluctant to cut its rates, muting its impact on the dollar.

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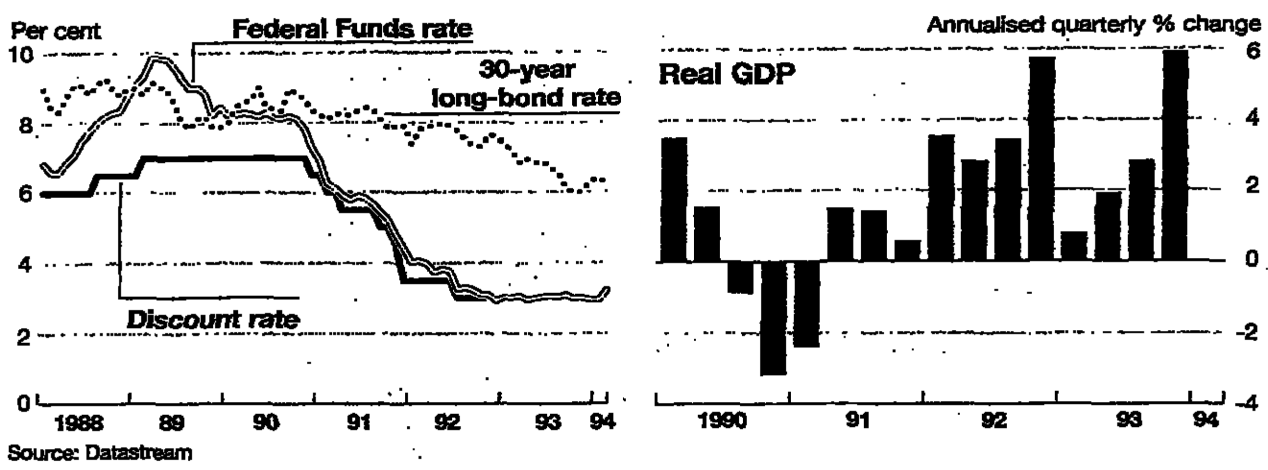
US economy: interesting times



Source: Datastream

Europe braced for nervous week

By Sara Webb and Emma Tucker

EUROPE'S financial markets are braced for a nervous start to the week after the US Federal Reserve's tightening of monetary policy on Friday.

The Fed's quarter-point increase in short-term interest rates, resulting in a stronger dollar, has prompted fears that European rates – on a downward path – may not fall as far and as fast as hoped.

However, Mr Roger Bootle, chief economist at Midland Global Markets, said yesterday that there was no reason why US rates should not go up while those in Europe continued to decline.

"I don't think it will be catastrophic. Anyone who has been watching the US closely should have known this was coming and it ought to have *been discounted in Europe*," he said.

Mr Paul Chertkow, head of global currency research at UBS, said the Fed's move would put pressure on the D-Mark and create problems for Germany's policy makers, where further interest rate cuts are widely seen as necessary to stimulate growth.

"On the one hand there is still considerable economic malaise in Germany, and they should be easing monetary policy," he said. "On the other, the Bundesbank has always prided itself on currency stability."

Mr Chertkow said it was possible that there would be a fundamental reassessment of the D-Mark in the wake of the Fed's move.

Europe's government bond markets are also likely to have an uncertain week. The Bundesbank's decision last Thursday to leave key German interest rates unchanged had already disappointed the fixed-income markets and the US decision prompted further price falls on Friday.

However, analysts yesterday pointed out that the reaction could have been overdone. Mr Michael Saunders, UK economist at Salomon Brothers in London, said the Fed's decision was better in the long term for UK government bonds since it reduced the risk of inflation picking up in the US.

"The Fed has raised rates as a pre-emptive strike. From the gilt market's point of view it would have been worse if they had left it until there was a serious threat of inflation taking off," said Mr Saunders.

The UK stock market, which last week hit a record high, is expected to fall when dealing starts today following Wall Street's sharp decline on Friday. "The stock exchange screens will be blood red as share prices are marked down," said one analyst, predicting a 50-100 point initial decline in the FT-SE 100 share index.

Mr Ian Harnett, chief economist at Société Générale Strauss Turnbull Securities, said smaller companies would suffer the worst falls, reflecting the poor liquidity of their shares.

Rise unlikely to hit flow of funds to emerging markets

By Stephen Fidler, Latin America Editor

The first tightening of monetary conditions in the US in five years appears unlikely to slow flows of funds to financial markets in Latin America and Asia, according to economists on Wall Street.

These "emerging" markets have been buoyed over the last year by heavy capital flows from US mutual fund investors pursuing higher returns on investment than those available in the US. But the quarter-point rise was believed to be insufficient to affect these flows.

"There would have to be a move of considerably more than this to have any significant effect on these markets. Even as much a 100 to 150 basis points (1-1½ percentage points) might not have a terrible impact," said Mr John Purcell of Salomon Brothers in New York.

Short-term rates of 3¾ per cent and long term rates of just over 6.3 per cent did not appear enough to compete with recent returns on emerging market investment. Latin American markets have been particularly strong this year; the worst performing, Mexico's, is up 8.5 per cent since the start of the year, while Brazil's is up by some 40 per cent.

Mr Geoffrey Dennis of Bear Stearns said the only other possible cause for concern would be if the rate increase caused a sharp drop in the US equity market of, say, 10-15 per cent. This would send shock waves through the world's other equity markets, in particular the emerging markets, but seemed highly unlikely.

Economists said the key for economies such as Mexico's was US growth. If the rate increase was a reflection of robust growth in the US, this would provide a boost to Mexico and other economies that would more than offset the impact of a modest interest rate rise.

US backs Canadian for OECD

By George Graham

The US has thrown its weight behind Mr Donald Johnston, a Canadian former economics minister, for the job of secretary-general of the Organisation for Economic Co-operation and Development, the Paris-based grouping of the major industrialised countries.

"We think Johnston would do a superior job of leadership," a senior US official said, noting the Canadian candidate's experience as a political leader and his fluency in both French and English, the OECD's two official languages.

Washington's decision is a blow to the chances of Lord Lawson, who is backed by the British government.

Clinton jobs summit date set

President Bill Clinton will hold his jobs summit in Detroit next month, White House officials announced at the weekend, George Graham reports. The March 14-15 meeting will bring together ministers from the Group of Seven nations.

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US airlift to aid Sarajevo war victims

US aircraft yesterday ferried medical staff into Sarajevo and evacuated civilians injured in the city's worst massacre since fighting started there 22 months ago, agencies report from Sarajevo.

The death toll from Saturday's mortar bomb attack in the Bosnian capital rose to 68 as some of the more critically wounded died.

As United Nations armoured vehicles collected patients from city hospitals, the UN refugee agency said well over 50 injured were expected to leave, including some hurt in earlier incidents.

In Germany, meanwhile, preparations were made at a US military hospital to receive nearly 100 wounded from Sarajevo – 50 in a US air force transport aircraft and 48 on board a Red Cross aircraft.

A US medical team flew in to Sarajevo on a Hercules transport aircraft earlier yesterday to assist local doctors in preparing for the evacuation.

The Bosnian government declared a day of mourning, while families laid flowers at the market place in memory of the dead. Most of the damage had been cleared but blood still lay in some shrapnel holes.

Sarajevo Mayor Muhamed Kreselvjakovic said: "This was the worst day of death in this city for 500 years."

Mr Alija Izetbegovic, Bosnian president, appealed to world leaders to help save Moslems from "slow-motion genocide". He blamed Serb gunners for the attack, in which about 200 were wounded.

The Bosnian Serbs, denying responsibility for attacks on Friday and Saturday, have accused the Moslems of massacring their own people to scupper peace talks.

The UN said experts, analysing the market crater, had been unable to determine who fired the single 120mm mortar bomb.

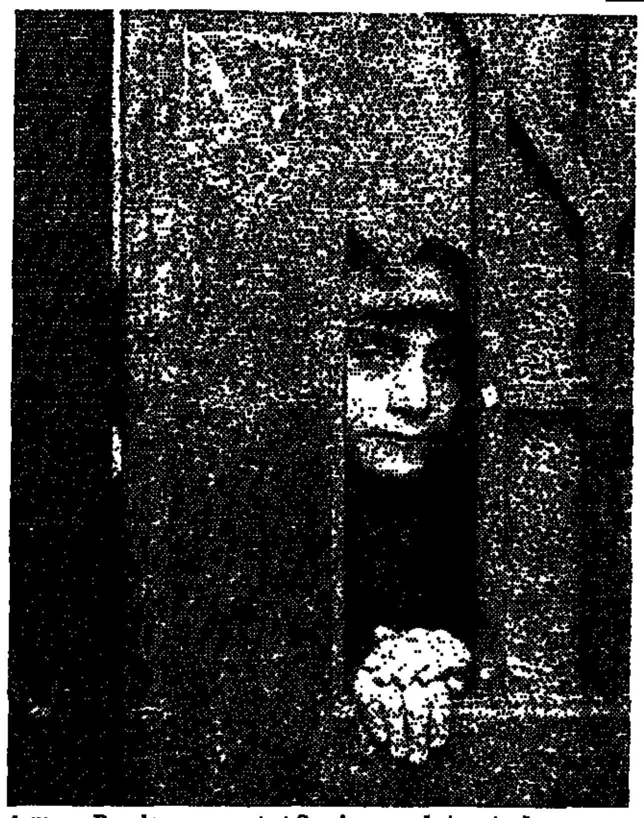
Peace mediators Lord Owen and Mr Thorvald Stoltenberg were last night due to meet Bosnian Serb leader Radovan Karadzic. The Bosnian Moslems said they would still attend peace talks in Geneva on February 10.

Lord Owen said on his arrival in Belgrade yesterday that he wanted to get an agreement to put Sarajevo under UN control even if he could not achieve an overall settlement to the war in Bosnia.

Mr Karadzic had indicated that the Serbs had been ready to "discuss a demilitarisation of Sarajevo under UN administration," Lord Owen said.

"What we are really trying to do is get a settlement in Sarajevo even if we can't get an overall settlement," Lord Owen added.

Earlier, Lord Owen said he had a "glint" of optimism that Sarajevo could be put under UN control as a result of the mortar attack.



A young Bosnian peers out at Sarajevo market yesterday AP

Kohl hits at SPD 'secret promises'

By Quentin Peel in Bonn

Mr Helmut Kohl, the German chancellor, and his Christian Democratic Union yesterday stepped up accusations against the opposition Social Democrats (SPD), suggesting they had undermined the process of German unification with secret promises to the former East German government.

The latest SPD leader to be accused is Mr Rudolf Scharping, the party's challenger for the chancellor's post and current state premier in the Rhineland-Palatinate, Mr Kohl's home state.

The Welt am Sonntag newspaper yesterday published documents from the former East German Communist party, claiming that Mr Scharping had agreed to recognise East German citizenship on a trip to the country in 1987.

West Germany always insisted that East Germans enjoyed automatic West German citizenship, a key factor in allowing Hungary to open its borders in 1989, and precipitate the exodus which ultimately destroyed the East German regime.

EU strives to open way for new members

By David Gardner in Brussels

European Union foreign ministers meet in Brussels today and tomorrow to start the final stretch of negotiations aimed at bringing Austria, Sweden, Finland and Norway into the Union by next January.

This is the main set-piece of a meeting that is expected also to include consideration of a more robust stance on Bosnia.

For the enlargement deadline to be met, a deal on agricultural and regional aid subsidies, plus the linked issue of how much the four applicants should contribute to the EU budget, must be struck before the end of this month.

In addition, Austria wants greater environmental guarantees on EU truck traffic through its Alpine passes, while Norway is still at odds with the 12 over management of its fisheries resources and Oslo's sanctioning of whale and seal pup hunting.

The current Greek presidency of the EU has scheduled extra ministerial meetings with the four for February 21-22 and February 24-28, in what still looks like an ambitious attempt to conclude the enlargement talks.

"This is a serious attempt to finish the negotiations," one senior EU diplomat said, but "it is perfectly possible that these negotiations will not come to a conclusion in February."

The 12, however, have at last endorsed the line taken by European Commission negotiators on farm subsidies, broadly backing the Brussels approach to regional aid for the four.

The Commission wants the generally much higher Nordic and Alpine subsidies to agriculture realigned at EU levels immediately on entry, with the difference paid as direct compensation to farmers.

All the candidates but Sweden, allied with traditionalists in the powerful Commission agriculture directorate, prefer the border rebates that were used to iron out farm subsidy differences until the internal market came into effect last year.

Ministers are also set to take steps to strengthen relations with eastern Europe.

Polish coalition to discuss disputes

By Christopher Bobinski in Warsaw

The leaders of Poland's coalition partners are expected to meet today to try to resolve the fighting between the two parties over economic policy which culminated last week in the resignation of Mr Marek Borowski, deputy premier and finance minister.

At the weekend Mr Alexander Kwasniewski, the Social Democratic movement (SLD) leader, said he would continue to urge Mr Waldemar Pawlak, the prime minister and Peasant party leader, not to accept the resignation of Mr Borowski, an SLD member.

He was speaking after an SLD leadership meeting which saw no alternative to the present SLD-PSL coalition.

Mr Borowski resigned on Friday after failing to win assurances from Mr Pawlak that economic policy and personnel decisions would be agreed between the coalition partners.

Also the weekend, the Finance Ministry said it would reduce the scale of electricity and gas price increases planned for this month.

Moscow set for tough battle over budget

By Leyla Boulton in Moscow

A draft of Russia's 1994 budget, aimed at bringing monthly inflation down to less than 10 per cent by the end of the year, will be submitted to Mr Victor Chernomyrdin, the prime minister, today.

It is the first step in a difficult budget process during which the proposed deficit is likely to be swollen by additional spending demands.

Mr Sergei Alexashenko, deputy finance minister, said the projected budget deficit was Rbs36,000bn or 4.8 per cent of gross domestic product. Revenues for 1994 are projected at around Rbs114,000bn.

"This is a budget which would enable us to manage inflationary processes in the country," he said yesterday. "But I am sceptical that the prime minister will agree to such a budget and his decision is only a first stage."

The budget next has to go to a cabinet meeting, and then to parliament for approval.

The version which emerges from this process will provide the first real indication of whether Mr Chernomyrdin can stick to the tough fiscal and monetary policy he says he plans to complement with "non-monetary methods" to fight inflation.

In the absence of significant public sector borrowing, the budget deficit in Russia is financed mostly by the printing of money which has been the main source of double-digit monthly inflation rates.

An IMF mission in Moscow at the government's request has not been involved in the preparation of the budget, as some Russian officials had wanted it to be. "They asked us to come to show that it is business as usual, but they are not ready yet."

The pressures for increased spending – regardless of its impact on inflation – are tremendous, while the political will to resist these pressures is shakier than ever before.

Mr Sergei Dubinin, the reformist acting finance minister, has cut proposed budget expenditure to Rbs150,000bn from the Rbs234,000bn sought by various ministries. But his power to obtain the budget he wants is limited by the lack of political support for fiscal discipline within the new government and from the parliament.

NEWS IN BRIEF

Progress in China's talks with Taiwan

China and Taiwan have narrowed differences on issues affecting their day-to-day relationship, but are little closer to resolving wider political concerns after five days of talks in Beijing, Tony Walker writes from Beijing.

Spokesman for "unofficial" Chinese and Taiwanese organisations involved in the discussions said they had made progress on issues such as repatriating hijackers, returning illegal immigrants, settling disputes among fishermen and intellectual property rights.

Kurds under fire from Turkey

Turkish Air Force aircraft yesterday pounded rebel Kurds along border areas in northern Iraq, Reuter reports from Istanbul.

It was the second big raid by the air force on the guerrillas in two weeks.

Nigerian army keeps distance

Nigeria's military do not intend to take part in the country's planned constitutional conference, agencies report from London.

Radio Nigeria said army spokesman Fred Chijuka told reporters in Lagos that the responsibility of the armed forces was to defend the nation's territorial integrity at all times, "and not to fashion out a political arrangement".

Court rejects BCCI plea

An Abu Dhabi criminal court has rejected pleas by defence lawyers to release former BCCI officials who have been held in the emirate since 1991 when the failed bank was shut down, Reuter reports from Abu Dhabi.

The court trying 13 former Bank of Credit and Commerce International officials adjourned until February 19 the hearing in the biggest court case to stem from the bank's collapse.

Malawi to float currency

Malawi announced at the weekend that it was floating its currency, the kwacha, Reuter reports from Balantyre.

Governor Francis Pelekamoyo of the Mawali Reserve Bank said foreign exchange controls would be abolished from today and the value of the kwacha determined by the market.

Compromise near on Tokyo tax cut plan

By William Dawkins in Tokyo

Japan's seven-party coalition yesterday appeared near to a compromise on a long-delayed economic package of tax cuts and government spending.

Party leaders agreed that the package, originally planned to be worth Y5,100bn (£30.5bn), must be adopted as government policy before Morihiro Hosokawa, the prime minister, meets US President Bill Clinton in Washington on Friday.

The government is eager to present Mr Clinton with evidence that it is doing its best to stimulate domestic demand, in order to deflect US demands for numerical targets for a decline in the current account surplus and for increases in the market shares of imported goods. Official figures today are expected to show that the current account surplus rose to around $140bn (£93bn) last year from $117.55bn in 1992.

Japan wants to show it means to sweep away economically stifling regulations and barriers to foreign competition, but cannot accept numerical targets, officials say. Mr Hosokawa would lose as much support for agreeing to US targets as he would by failing to produce an economic package, they argue.

Coalition members have been trying to hammer out a compromise on the economic package since early Thursday morning when Mr Hosokawa dropped a political bombshell by proposing a Y6,000bn-a-year tax cut, to be funded by a 7 per cent "welfare tax" on goods and services to be introduced in three years.

The Social Democratic party, the largest coalition member, elected on a promise not to increase the current 3 per cent sales tax, complained that Mr Hosokawa had failed to consult the party - a clash with the Japanese political tradition of consensus on difficult decisions.

The final shape of the compromise was unclear yesterday, but Mr Tomiichi Murayama, Socialist leader, said his party had suggested the government should wait two years before considering raising sales tax. "We will discuss the overall revenue situation and a basic welfare programme during that period. This will help the prime minister achieve national consensus," said Mr Murayama.

That idea is likely to please the US, since it removes a damper on consumer spending. But the powerful Finance Ministry and the Japan Renewal party – the main influence on government economic policy – believe that a drop in income tax must not be allowed to add to government borrowings.

Japanese drugs groups to hear price cut details today

By Paul Abrahams in Tokyo

Drugs groups in Japan will today learn how much the government intends to cut pharmaceutical prices. The companies expect reductions to average 6.5-7 per cent, further undermining growth of a sluggish Japanese medicines market.

The industry fears the Japanese market, the world's second largest, could fail to grow over the next few years following the latest price cuts and other government-inspired efforts to limit demand for medicines.

Mr Toshihide Yoda, drugs analyst at UBS Securities, estimates the market will fall 0.9 per cent this year. "There is no growth potential in the Japanese market for the rest of the century," he warns. Japanese companies will be hit particularly because of their dependence on the domestic market. Only three Japanese companies generate more than 10 per cent of their sales overseas.

The Ministry of Health and Welfare is also expected to tell manufacturers that in addition to the regular biennial price reductions, there will be special price cuts for fast-selling products such as cholesterol-lowering drugs and interferons.

One pharmaceuticals group believes the special cuts for cholesterol medicines could be about 12 per cent, while the interferon prices could be cut by 13-20 per cent.

After the ministry tells the drugs companies of the scale of the cuts, they will be able to appeal. Prices for the next two years will be announced around March 10, and implemented on April 1.

The price cuts will probably hit Sankyo, Japan's second largest drugs group, hardest. The price of its cholesterol medicine Mevalotin will be reduced. Last year, the product generated sales of Y86bn (£515m), representing about 21 per cent of Sankyo's turnover, according to brokers Merrill Lynch.

Banyu, the subsidiary of the US group Merck, will also lose sales when the price of Lipovas, its cholesterol drug, is cut. The compound was one of the group's fastest-growing products last year, generating sales of about Y16.6bn, compared with group turnover of Y122bn.

Among interferon manufacturers, Sumitomo Pharmaceutical is likely to be worst affected. Sumiferon, its compound for hepatitis C licensed from Wellcome of the UK, controls 40 per cent of the market, with sales of about Y50bn.

Markets hit by devaluation and healthcare reforms

By Paul Abrahams

Sales of drugs in Europe's seven most important markets collapsed 11.4 per cent in dollar terms during the 11 months to November last year compared with the same period in 1992. Healthcare reforms, combined with currency devaluations, caused the steep drop from $47.1bn to $41.7bn (£27.8bn).

In local currency terms, the European market generated zero growth, according to IMS International, the market research group, against 10 per cent during 1992.

The US market was also sluggish, up 5 per cent to $40.4bn, demonstrating the impact of lower price rises and increasing purchasing power of bulk purchasers.

Drugs sales in Japanese pharmacies increased 7 per cent in local currencies, up from $14.8bn to $18.2bn. However, growth in the whole Japanese market – including hospitals where most drugs are dispensed – was slower.

European sales were held back by Germany, the region's largest market, and Italy. Healthcare reforms in Germany introduced in January last year drove the market down 9 per cent in local currencies, a fall from $13.4bn to $11.5bn. The Italian market, which has also been shaken by a series of reforms, plummeted from $10.1bn to $7.6bn, a drop of 3 per cent in lire.

Sales in France were down in dollar terms from $11.2bn to $10.9bn, but increased in francs by 5 per cent. Drugs sales in the UK also dropped in dollar terms, from $5bn to $4.6bn, but increased 11 per cent in sterling. Sales in Spain fell from $4.5bn to $4bn, but in pesetas moved up 11 per cent. The Belgian market fell from $1.41bn to $1.39bn, but rose 5 per cent in local currency. In the Netherlands, sales improved 12 per cent from $1.39bn to $1.47bn.

In Europe, cardiovascular medicines, the most important sector, declined 2 per cent in local currencies, from $10.6bn to $9.2bn. Musculo-skeletal agents – primarily anti-arthritic products – fell 4 per cent, from $2.7bn to $2.2bn. Alimentary and metabolism drugs, mostly anti-ulcerants, reported no growth in local currencies as they declined in dollar terms from $8bn to $7.1bn.

Some categories posted growth. Anti-infectives – antibiotics and anti-virals – were the fastest expanding therapeutic category, up 6 per cent, although in dollar terms sales fell from $4.2bn to $3.9bn.

Charter flight rules liberalised

Israel backs 'open skies' policy to encourage tourism

By Julian Ozanne in Jerusalem

Israel yesterday approved an "open skies" policy liberalising the country's aviation regulations to promote competition and boost tourism.

The new policy, which will come into effect on March 1, will encourage competition on fares, give airlines greater freedom to decide the number of flights to Israel, and promote flexibility of charter flights.

The reform cancels the obligation for El Al, the state airline, to have an equal number of flights with foreign airlines on a given route and allows international airlines to increase flights to Israel. It gives travel agents freedom to give discounts on tickets and cancels the $25 (£16.60) commission on ticket purchases. The policy provides for an increase in charter flights, allows charter companies to carry Israelis as well as tourists and makes licences for peak seasons more flexible.

Mr Uzi Baram, the minister of tourism, said the new policy would increase the number of tourists to Israel, which last year reached 2m. He said the policy was "significant but not optimal". The reforms, he said, should have been approved six months ago but met objections from El Al until the government agreed to continue paying the state airline 80 per cent of the high costs of its security operations.

El Al yesterday welcomed the reform and said: "El Al feels its efficient operations will allow it to compete on the basis of price and improved service." El Al is expected to report 1993 profits of $10m, against the trend in a globally depressed airline industry.

● The Israeli Ministry of Energy yesterday said it had chosen Sofregas of France to undertake a detailed study on the options of importing natural gas into Israel. The state says it needs at least 3m tonnes of oil equivalent by 1996/97 to convert its power plants to gas and is considering at least four possible gas deals with foreign countries and companies, including Qatar and Egypt.

Arafat-Peres Cairo meeting in balance

By Julian Ozanne in Jerusalem

Mr Yitzhak Rabin, the Israeli prime minister, was yesterday considering whether to go ahead with today's planned meeting in Cairo between his foreign minister, Mr Shimon Peres, and Mr Yassir Arafat, PLO chairman.

Mr Rabin and Mr Peres have denied they are at loggerheads over the negotiations, but Mr Peres' aides have leaked reports that the foreign minister is frustrated at the army's intervention in the negotiating process. Mr Peres was due to meet Mr Rabin last night to decide the strategy for the Cairo talks.

If Mr Peres goes to Cairo today, political experts say he will have Mr Rabin's mandate to settle an agreement at least on the remaining security issues and therefore ensure Mr Arafat's participation. Mr Arafat has said he would not attend the Cairo talks unless there were prospects for the signing of a long-delayed agreement providing for the implementation of Palestinian self-rule in the Gaza Strip and West Bank area of Jericho.

Negotiations with the PLO are at a delicate stage. A draft agreement reached between Mr Peres and Mr Arafat in Switzerland last weekend has raised objections from the Israeli army. Senior officers have insisted Israel must maintain absolute control of security at the border crossings between Egypt and Gaza and between Jordan and Jericho. They also want total control over lateral roads leading to the Jewish settlements in Gaza and over the safe passages granted to the Palestinians.

Some cabinet ministers, including Ms Ora Namir, the welfare minister, yesterday criticised the influence of the army on the peace process.

Mr Rabin recently said there was no hurry in reaching a final agreement and he would only be ready to sign once all issues were resolved.

● Mr Haim Ramon, the politician most favoured by Israelis to succeed Mr Yitzhak Rabin as Labour prime minister, yesterday resigned from the cabinet over a row about health insurance policy.

The resignation means Mr Rabin carries responsibility as prime minister, defence minister and acting minister of health, the interior and religious affairs. He will have to find a way of keeping Mr Ramon, a spokesman of the reform wing of the Labour party, in the government.

Chinese laws crack down on foreign missionary activity

By Tony Walker in Beijing

China has tightened controls on foreign missionary activities and is seeking to strengthen measures against unauthorised religious practices.

Publication at the weekend of two new decrees to improve religious "management" is set to fuel criticism of China's human rights behaviour as debate intensifies over renewal of its Most Favoured Nation trading status in the US.

The regulations, authorised by Premier Li Peng, took effect on publication, and coincide with an explosion of religious activity in China. Titled "Management of Foreign People's Religious Activities in China" and "Management of the Place of Religious Activities", the new laws come less than a week after a US State Department report said China's human rights behaviour fell far short of internationally-acceptable standards.

Under the decrees, foreigners are banned from setting up religious organisations, schools or offices in China. They were also expressly forbidden from "cultivating religious disciples among Chinese citizens and appointing religious clergy".

The rules follow the widespread growth of religious activity and increased contacts with foreign religious organisations.

Attempts to stop "unofficial" religious activity, especially proselytising by foreign missionaries, coincides with a heightened campaign by western religious organisations aimed at influencing President Bill Clinton's decision on MFN – the lower-tariff regime which facilitates the sale of billions of dollars worth of Chinese textiles in America.

An American-based organisation called "Free the Fathers" urged the US administration at the weekend to withhold MFN status following what it claimed was recent persecution of priests who have maintained their allegiance to the Vatican.

Customers queue up outside a McDonald's restaurant in Beijing yesterday. Fast food restaurants are opening all over the city. Reuter

China seeks to exercise control over various religious denominations through nation-wide organisations, including the Chinese Patriotic Catholic Association. Beijing remains estranged from the Vatican, although there have been signs of a thaw.

● Amnesty International added its voice at the weekend to calls for an end to religious persecution. It complained particularly about the sentencing recently of 11 Tibetan nuns to between two and seven years' jail for allegedly taking part in an anti-Chinese demonstration.

INTERNATIONAL PRESS REVIEW

Germany

Reflecting on BMW's surprise takeover of Rover last week, even **Bild**, the raucous popular daily, appeared choked by *some of the noxious* anti-German gas generated in the British tabloid press.

After crowing that the Brits were "pissed off" in Tuesday's paper, by Wednesday it was mourning the persistence of old resentments and weary propaganda. "The Germans are coming," wrote leader writer Peter Boenisch. But, *he asked, was the arrival of* BMW instead of bombs and rockets something to be afraid of? No, it was marvellous. "Democratic Germany is *saying 'hello' and not* 'Sieg Heil'."

The **Frankfurter Allgemeine Zeitung** suggested that relatively few Britons were angry that the "bloody Germans" had bought Rover. It appeared to take the view that underneath any resentment lay a feeling that the high reputation of German industry and products was more important.

The stock market's **Börsen-Zeitung** took a similar view. Rover would benefit from *BMW's good name. On the* other hand Rover customers would become more demanding and no longer accept "weaknesses" in their cars which they had tolerated in the past.

This would require heavy investment it added. Reflecting similar concerns aired in other commercially-angled analyses, the Börsen-Zeitung said a question mark remained over Mr Pischetsrieder's calculation that two and two made five.

Wirtschafts Woche, the business weekly, dwelt on recent failures in motor industry mergers, citing the Renault-Volvo case and Volkswagen's disasters with Seat in Spain. But it *also* made the point that Rover had more rich and famous customers for its Range-Rover models *than BMW had for the whole* of its 7-Series range.

Ukraine

The victory of a *pro-Russia* separatist in Crimea's presidential elections last week overshadowed the long running debate on nuclear disarmament in the Ukrainian press.

Kievsky Vedomosti, Ukraine's leading newspaper, viewed the election result as a threat to Ukraine's territorial *integrity, saying the Crimean* president's "mandate of popular confidence" – *practically unanimous [73 per* cent of the vote] – is a substantial "trump card in launching a political game with Kiev". The paper offered presidents of Crimea and Ukraine a prayer in resolving the standoff: "God help them!"

Ukrainian President Leonid Kravchuk's reaction to Crimea was notable by its absence. *Ukraine's opposition daily,* **Nezavisimost** (The Independent), joked about their president's notorious silence at critical moments: "God reveals to Clinton, Yeltsin and Kravchuk that the world will end in *24 hours*. Clinton summons journalists and tells his chosen people' to play the anthem and raise the flag. *Yeltsin organises* a demonstration and orders his people to drink and eat. Kravchuk. . . is silent. Finally, people run to him and scream, *we've all heard it on the radio.* What should we do?' He answers, 'Relax, relax. . . We'll gather the government and discuss the issue according to its scheduled order."

The opposition daily was bursting with criticism from politicians who believed Mr Kravchuk should have "annulled the elections" in Crimea. *Instead*, "a conflict is coming to a head," it warned, adding that "it will *be difficult to spare Crimeans* from the civil war" which has already spread to other regions of the former Soviet Union.

All the newspapers took pains to explain that Ukraine's economic collapse was the most important factor in the separatist vote. Only two years ago, noted the government's mouthpiece **Uryadovy Kuryer**, *the Russian-dominated Black* Sea peninsula voted to be a part of an Independent Ukraine.

France

The growing tendency of Prime Minister Edouard Balladur to buy his way out of trouble – first with the farmers, then Air France strikers and state schools supporters, and now the fishermen – has up to now caused him little trouble.

The French public, which *values social peace, still* rates him highly in the opinion polls. The left-wing opposition has not made the connection that it is the privatisation of state companies which is bankrolling Mr Balladur's largesse. But the failure of two aid plans to defuse a fishermen's protest in Rennes on Friday that turned into a near-riot and the partial burning down of the Breton parliament, has led the conservative press to question, *just a little, Mr Balladur's* tactics.

Yesterday's **Journal de Dimanche** said, "Our governments are encouraging subversion" by handing out money to the fishermen the moment their protests turn violent, though the paper noted that the previous Socialist government had *similarly caved in a year ago.*

Saturday's edition of **Le Figaro** commented on the ritual that takes place after violent demonstrations in France. "Everyone first unites in condemning the aggressive protesters. . . and then all conclude that their demands are justified and their anger comprehensible." The editorial deplored the fact that "today in France one has to turn on one's 'angry lights' to get a hearing from the politicians".

However, the *Bordeaux-based* **Ouest France** solidly endorsed the fishermen's claims, saying on the morning of the Rennes riot that "courage and sang-froid" could be expected of them. Courage, yes. Sang froid, hardly.

From Christopher Parkes in Frankfurt, Jill Barshay in Kiev and David Buchan in Paris

Staff build-up in E Europe to bring services closer to potential customers

EBRD raises local profile

By David Marsh, European Editor

The European Bank for Reconstruction and Development intends to increase its staff in eastern Europe and the former Soviet Union by about half in an attempt to bring its services closer to potential customers.

The move to raise by 20 the EBRD's expatriate and locally hired employees in its 11 offices outside London forms part of a decentralisation strategy being implemented by Mr Jacques de Larosière, the EBRD president.

Mr de Larosière believes the bank lacks the flexibility and on-the-ground presence to respond quickly to emerging business opportunities, especially with smaller enterprises.

As a result, the bank wants to recruit relatively young people with experience of eastern Europe. "We want people who can make deals," one bank official said. The official added that the changes, which have been discussed with the bank's directors and senior management in recent weeks, would take time to implement. "We cannot change direction in a few months."

The decentralisation plan would be backed by a more effective system of communication between the regional offices and the London headquarters. The move is in line with the restructuring of EBRD's operations decided in November to make the bank less bureaucratic.

Mr de Larosière took over at the end of September after Mr Jacques Attali was forced to resign following widespread criticism of the bank's overspending on its London office and relatively low disbursements of funds for eastern Europe. Since taking over, Mr de Larosière has launched a programme to reduce costs and refocus the bank's priorities.

During the second half of last year, the EBRD stepped up disbursements of loans and equity to the former communist bloc. Some of these increased pay-outs were already planned before Mr Attali left in July.

At end-December 1993, disbursements stood at Ecu556m ($617.2m) out of approved projects of Ecu3.8bn and signed commitments of Ecu2.8bn. This compares with disbursements of Ecu126m at the end of 1992 and Ecu244m last June.

The EBRD's aim is to increase by five the bank's complement of around 20 London-hired employees in its outside offices. A further 15 will be added to the tally of 20 local staff. Seven of the offices are in former communist countries in central and eastern Europe, with the biggest in Warsaw, Prague and Budapest. The rest are in Moscow and other parts of the ex-Soviet union.

The new posts will be offset by reductions in jobs at the EBRD's London headquarters, in line with an overall freeze on hiring since Mr de Larosière's arrival.

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De Larosière: cutting costs

E European households seen as big market

By Andrew Baxter

Sales of white goods in eastern Europe are likely to rise more than 50 per cent by 1997, paced by strong growth in Hungary and Poland, according to a report* by Euromonitor, the London-based market analysts.

Volume and value sales of white goods – cookers, refrigerators and freezers, washing machines, dishwashers and ovens – will grow by 14 and 53 per cent respectively by 1997, when Euromonitor estimates the market will be worth about $6.2bn, including partial data from Russia.

The projection implies that more sophisticated products will gain market share, boosting the value of the market.

It underlines the importance of the east European white goods market to the big western appliance groups, whose traditional markets are more mature.

Whirlpool, the world's biggest white goods producer, forecasts annual growth of 6-8 per cent in the east European market, around double that for western Europe.

Euromonitor says growth in Hungary and Poland will be fastest because they moved towards a market economy relatively early, and consumers have more money to spend on domestic appliances.

It says ownership levels in eastern Europe are high for refrigerators and washing machines, while unfamiliar products such as dishwashers, microwave ovens and driers are still taking time to establish themselves.

Washing machines, however, are likely to become the most important product sector. They are less well established than refrigerators, giving scope for sales to increase, and are a higher priority for consumers than dishwashers or microwaves.

The report says there is plenty of scope for white goods companies to establish manufacturing bases in the region, though in the short-to-medium term it will be more feasible to establish a regional distribution network.

**White Goods Market in Eastern Europe. Euromonitor, 87-88 Turnmill St, London EC1M 5QU. £795.*

Mexican official to meet Chiapas rebels

By Damian Fraser in San Cristóbal de Las Casas

Mr Manuel Camacho, the government-backed peace commissioner in the Mexican state of Chiapas, is set to meet rebel guerrilla leaders in the middle of this week, according to officials involved in the peace process.

The planned meeting would be the first between armed guerrillas, who seized several towns on New Year's Day, and Mr Camacho. The two sides are likely to meet privately, although they may put out a joint communique after the first encounter, according to the officials.

The guerrillas appear to have reached a compromise with Mr Camacho, whereby the peace commissioner will listen to their demands for national political changes, but will not make any concessions on such issues. Instead, direct negotiations are likely to focus on the political and social conditions in the state of Chiapas.

Mexico's governing party recently reached broad agreement on democratic reform with the opposition, which Mr Camacho hopes will satisfy rebel demands for political change in Mexico. The guerrillas, known as the Zapatista Army of National Liberation, have nevertheless continued attacks on what they view as Mexico's authoritarian political system.

In his first interview since the uprising, Commander Marcos, the spokesman for the Zapatista, declared the rebel revolt a "spectacular victory". The government is now paying attention to the country's indigenous peoples, no-one is now talking about the success of the Mexican economy, and the issue of poverty has emerged, he said.

Mr Marcos, who is of mixed descent, formally reports to a committee of six indigenous leaders. But it is evident he is the principal political and military strategist of the group. In the interview, extracts of which were published in La Jornada newspaper, he comes across as highly educated, self-confident, humorous, and undogmatic.

Mr Marcos made it clear the aim of the Zapatista had been to mobilise society against government policy, rather than win a military victory. "We see the armed struggle not in the classic sense of guerrillas before, that is to say, the armed struggle is the only way. . . Instead, we have always seen the armed struggle from the beginning as part of a series of steps and forms of fighting."

The rebel commander leaves no doubt that his fight is a national one, even if he accepts that the government will not directly negotiate such issues with an armed force. "The peasants are very clear; it is a lie to think that our problems can be solved at a state level" he says "This can only be solved if there are changes higher up."

Nations tackle global warming

By Frances Williams in Geneva

Crucial negotiations commence today on how to implement the international climate change treaty to combat global warming, which comes into force on March 21. Governments are rushing to put flesh on the bones of the framework convention, signed by over 160 nations at the United Nations "earth summit" in Brazil in 1992.

The key issues at the two-week meeting in Geneva will be guidelines for the preparation of national strategies to curb greenhouse gas emissions and for the funding of climate change projects in developing countries.

For the first time negotiators will also discuss whether to toughen the convention by requiring industrialised countries to reduce emissions of warming gases rather than simply to stabilise them. Under the present treaty, developed nations aim to bring their greenhouse gas emissions back to 1990 levels by the year 2000.

The World Wide Fund for Nature on Friday called for governments to start immediate negotiations on a cut of at least 20 per cent in carbon dioxide emissions, ready for adoption when treaty members hold their first conference in Berlin in March 1995.

Another longer-term issue concerns the scope for "joint implementation", which would permit rich countries to meet emission targets partially by financing more cost-effective schemes in poor nations. Opponents contend that this would allow the developed world to duck its prime responsibility for causing global warming.

Some 55 nations, among them the US, the European Union and Japan, have so far ratified the climate change convention. Industrialised country members must submit information on national emission strategies by September 21. In Geneva, negotiators will be trying to ensure comparable data by agreeing a common methodology for countries to calculate gas emissions.

NEWS IN BRIEF

Italy wants to keep Japanese car curb

The Italian government has asked the EU Commission to retain the 1993 ceilings on Japanese car imports for the current year, writes Robert Graham in Rome.

The move follows a disastrous year for car sales in Italy and the prospect of only a modest recovery in the second half of 1994. Despite the revaluation of the yen, the Fiat-dominated Italian car market is deeply concerned by the potential of Japanese suppliers - either through direct sales or via "transplants" from Japanese factories within Europe.

The request was made last week in letters from Mr Paolo Baratta, Italian trade minister, to Sir Leon Brittan, commissioner for external economic relations and Mr Martin Bangemann, commissioner responsible for industrial policy.

For 1993 it was agreed that Japanese car sales should be limited to 4.5 per cent of the total. This meant the Japanese could sell 38,000 vehicles, some 2,300 more than the previous year.

Industrial link-ups urged

Mr Jürgen Schrempp, chairman of Germany's Deutsche Aerospace (DASA), yesterday called for a consolidation of Europe's aerospace and defence industries, Reuter reports from Munich.

Mr Schrempp, whose company is a subsidiary of Daimler-Benz, said Europeans had to rid themselves of their dependency on the US in preparation for longer term transatlantic co-operation.

"We don't have a two-way street with the Americans, meaning that there is not a real technology transfer from the US to Europe," he said.

"We still have the situation that if in defence we use American technology we have to have their permission. This is not so much of a problem for Germany but it is a big problem for Britain and France."

Le Pen stays at the top

Mr Jean-Marie Le Pen won re-election at the weekend without opposition as president of France's National Front, but he hit out against a sign of possible restiveness with his 22-year command of the party, by complaining of "clannish manoeuvrings" for posts on the party's 100-strong central committee, writes David Buchan in Paris.

The tough line taken by the Balladur government, in particular its interior minister, Mr Charles Pasqua, has tended to marginalise and silence the NF in recent months. Demonstrators protesting in Paris on Saturday against recent anti-immigration legislation carried a banner reading "Pasqua copies Le Pen". However, a recent opinion poll showed 11 per cent support for the NF in this June's Euro-elections, not far off its showing of 12.4 per cent in last March's national parliamentary elections.

Airlines join forces

Loss-making Italian state carrier Alitalia and the US airline Continental have agreed to join forces in serving certain key routes between the US and Italy, Reuter reports from Rome.

La Repubblica newspaper said the two airlines had signed a letter of intent on co-operation on flights linking Rome and Milan with Newark and Houston.

La Repubblica, quoting US sources, said the deal was originally due to be signed in the first half of February but it had been delayed until March 10 because of management changes at Alitalia.

Alitalia's parent, state industrial holding Iri, last week appointed two former computer industry executives to head the debt-laden airline in a move to stem huge losses.

Burdened by $1.17bn of debts, Alitalia is forecast to post 1993 losses of around $270m.

NEWS: UK

Aid row prompts OECD review of policy

By Jimmy Burns and Robert Peston

THE controversy over British aid for the Malaysian Pergau dam project and its possible links with a £1bn arms deal has prompted concern within the Organisation for Economic Co-operation and Development over the conduct of British aid policy.

Sharp criticism of British government aid policy is expected in a report being prepared by a team of OECD examiners appointed by the organisation's Development Assistance Committee.

Belgian and Finnish examiners were in London last month collecting data on the British aid programme. They met Baroness Chalker, Foreign Office minister responsible for aid, who opposed UK assistance to the Pergau project on economic grounds.

One senior official who has closely monitored the project for the OECD said this week: "We want there to be a strengthening of public and parliamentary confidence in the UK aid programme. For this you need transparency. You don't sweep this [Pergau] under the carpet."

There are allegations that the UK offered Malaysia £234m of aid for the construction of the Pergau dam in order to secure a £1bn arms deal in 1988. This would have been a clear breach of OECD and government guidelines.

The granting of such aid despite opposition from Baroness Chalker and Sir Timothy Lankester, then permanent secretary at the ODA, also represents a breach of UK guidelines and established Whitehall procedures.

The DAC's report will be discussed by a general meeting of the 22-member committee on February 24, and will be published within a month.

A memorandum which UK officials recently submitted to the DAC, defines the aim of British aid policy as "promotion of the sustainable economic and sound development in order to improve the quality of life and reduce poverty, suffering, and deprivation."

A Financial Times analysis indicates that aid to Malaysia has been an anomaly within that policy. Between 1990 and 1993, it was consistently among the top 20 recipients of bilateral aid from the UK. However, Malaysia's GNP per head at $2,490, an important measure of relative prosperity, is four times greater than any other top 20 recipient of aid.

An ODA official said GNP per head was normally an important determinant of whether aid was granted. However, Malaysia's aid had been provided under the Aid and Trade Provision, which links the granting of aid to benefits for British trade. Aid and Trade rules were changed last year so that a country as prosperous as Malaysia can no longer qualify.

Major and Smith set tone for Euro campaign

By Kevin Brown in Glasgow and Philip Stephens in London

The campaign for local government and European elections burst into life yesterday as Mr John Major and Mr John Smith set out starkly differing views of Britain's economic prospects.

Mr Major indicated that his hopes for an upturn in the government's fortunes were pinned firmly on the strengthening economic recovery.

But Mr Smith told nearly 2,000 Labour activists at a rally in Glasgow that Britain faced low growth, high taxes and unparalleled waste and corruption under the "crumbling" Conservative government.

The clash came as the prime minister made clear that he would not quit the party leadership if – as widely expected – the Conservatives suffer heavy losses in the council polls in May and elections to the Strasbourg parliament the following month.

Sir Norman Fowler, party chairman, said the Tory Euro-election campaign would focus on the "crucial difference" between the government and opposition parties. Labour and Liberal Democrats wanted to transfer more power to Brussels, the Conservatives did not.

He told a Young Conservatives' conference in Southport, Merseyside that he was determined that the June elections should not be trivialised by the opposition as a mid-term opinion poll. He added: "We know after polling day the centralists in Brussels would treat defeat for us as a victory for European centralism".

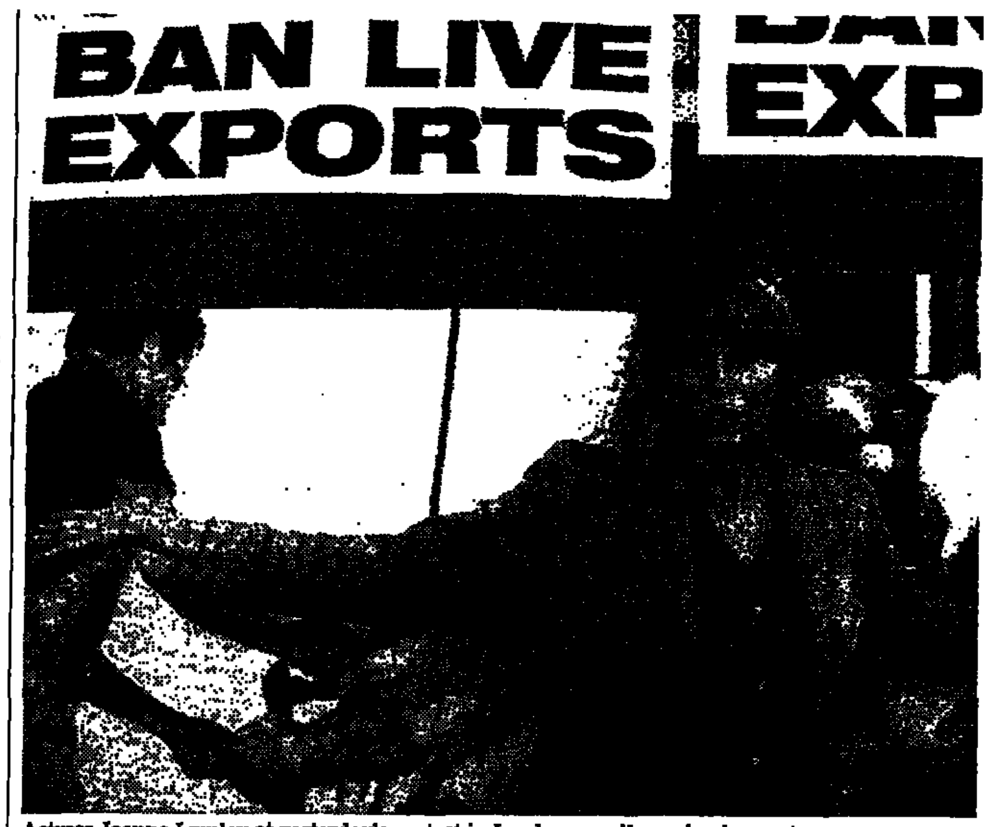
But in spite of the prime minister's warning last week that the party must end its factional infighting, there was still evidence of high-level tension between the left and right.

Some ministers on the left were privately voicing considerable satisfaction at the embarrassment suffered by Mr Michael Portillo, the rightwing chief secretary to the Treasury, after his attack on public standards abroad.

In an interview with The Sunday Times, Mr Major said Britain had the fastest growing economy in Europe and the prospect of overcoming the inflationary psychology that had bedevilled it in the past.

Mr Smith told supporters a Labour government would implement a "business plan" focusing on investment, training and jobs "to lift our country out of the failures and disillusionment of the past 15 years". Labour would use "all the resources and all the power of government" to promote an economic revival, he said.

He made clear Labour's election campaigns will focus on high taxation, rising crime, and the alleged appointment of Conservative "placemen" to quangos responsible for 20 per cent of public spending.



Actress Joanna Lumley at yesterday's protest in London over live animal exports Picture: Reuter

Move urged on animal exports law

A British animal welfare group, Compassion in World Farming, yesterday launched a campaign to end live exports.

CIWF wants the UK to support a move by Germany, Holland and Demark, who want animals to have only an 8 hour travel time to slaughterhouses. According to the organisation, Britain last year exported two million live animals and the number could rise by one million this year.

CIWF launched its campaign on the eve of a British television documentary which alleges that some hauliers break the law by failing to feed and water animals and that animals in European slaughterhouses are being killed without being stunned.

CIWF is planning to petition UK agriculture minister Mrs Gillian Shephard for a change in the rules covering livestock exports.

Swiss workers top satisfaction survey

By David Goodhart, Labour Editor

Employees in Northern European countries such as Switzerland, the Netherlands, Germany and Belgium, respond far more positively to their work situation than those in Southern Europe, such as France, Spain and Italy, according to Europe's most extensive survey of employee satisfaction.

International Survey Research's annual survey, based on results from more than 500 companies, found the Swiss overwhelmingly the most satisfied employees in Europe and the British the most negative – although a British company, British Shoe, was one of the five best individual companies.

Employees are asked to give their views on 17 aspects of working life including company management, immediate supervision, training and information, pay, job security and job satisfaction.

The Swiss came top in 16 categories out of 17 with an average positive response of 70 per cent. The British had the least favourable attitudes in 10 categories out of 17 with an average mark of 54 per cent.

The individual European companies which score highest are Texas Instruments, DHL, 3M, Nokia Mobile Phones and British Shoe.

The overall satisfaction level of European employees has remained constant between 1992-93 and 1993-94 but this masks a number of changes. Attitudes in the Netherlands, Belgium and Spain have deteriorated markedly over the past year, although the Netherlands still comes in second place and Belgium in fourth, with Germany coming in third place.

Britain in brief

PMs set to meet for Ulster talks

The British and Irish prime ministers are expected to meet in London later this month to restore a common front to efforts to find a political settlement in Northern Ireland.

The talks, pencilled in for February 19th, will follow the refusal of Mr Gerry Adams, the Sinn Féin leader, to indicate during his controversial New York visit that the IRA is prepared to renounce its campaign of violence.

Growing pessimism in London about the prospects of an early end to IRA terrorism in response to December's Downing Street declaration last week prompted Sir Patrick Mayhew, the Northern Ireland, to announce he would table fresh ideas for a political settlement between Ulster's constitutional parties.

Whitehall officials said the meeting between Mr John Major and Mr Albert Reynolds had yet to be finalised. But they expected it to coincide with a visit to London by Mr Reynolds for the England-Ireland rugby international.

Investor body to hear consumers

The Personal Investment Authority will set up a "consumers panel" to advise it on strengthening investor protection and to assess the authority's effectiveness, according to a confidential draft of the body's prospectus.

The PIA will also convene a committee to review the effect of regulation on small financial services firms, in part to meet criticisms from independent financial advisers that the PIA will introduce over-burdensome regulations. An ombudsman scheme will help customers achieve redress in complaints against PIA members.

The Securities and Investments Board, the City of London's chief financial watchdog, is expected to announce this month that it intends to recognise the PIA as the self-regulatory organisation covering the retail financial services sector.

Environmental aim 'on target'

The UK is on course to meet international targets on curbing the risk of global warming because of the rapid switch to electricity generated from gas instead of coal, according to a new study published today by the research group Cambridge Econometrics.

The recession and new fuel taxes in the two Budgets last year also play a part in enabling the UK to meet its commitments undertaken at the Rio Earth Summit in 1992.

Clash ahead on tobacco adverts

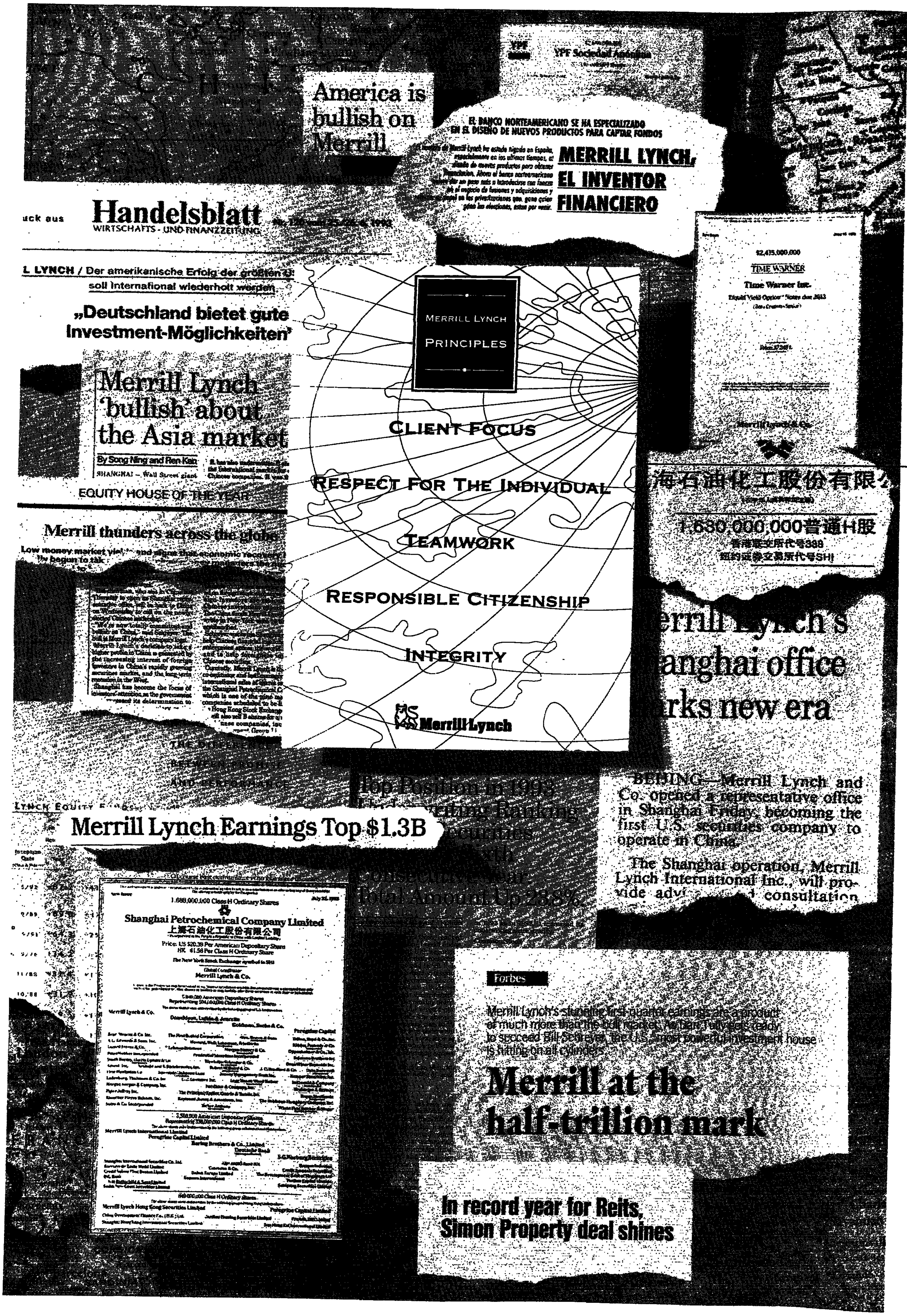
Britain's Advertising Association will today begin a fight-back against proposals circulating in Whitehall for tough new controls – including tax penalties – on tobacco advertising. Mrs Virginia Bottomley, the health secretary, is expected to announce this week that the government plans a fresh round of talks with tobacco manufacturers on tighter voluntary controls.

Mrs Bottomley has been unable to win cabinet agreement for a package of controls, including a ban on poster advertising. Some ministers back an advertising ban on health grounds, while others believe a ban would impinge on personal freedoms and reduce revenue from tobacco taxation.

Role seen for monetary body

The European Monetary Institute, which started operating last month, under the Maastricht treaty's plan for economic and monetary union, should be able to help European Union central banks control inflation, the Bank of England believes.

In an article released ahead of tomorrow's Quarterly Bulletin the Bank says that the EMI "should be able to contribute to robust counter-inflationary monetary policies" by monitoring policies and recommending changes.


America is bullish on Merrill
EL BANCO NORTEAMERICANO SE HA ESPECIALIZADO EN EL DISEÑO DE NUEVOS PRODUCTOS PARA CAPTAR FONDOS
MERRILL LYNCH, EL INVENTOR FINANCIERO
YPF Sociedad Anónima
Handelsblatt
WIRTSCHAFTS- UND FINANZZEITUNG
L LYNCH / Der amerikanische Erfolg der größten
soll international wiederholt werden
„Deutschland bietet gute Investment-Möglichkeiten"
Merrill Lynch 'bullish' about the Asia market
By Song Ning and Ren Kai
EQUITY HOUSE OF THE YEAR
Merrill thunders across the globe
MERRILL LYNCH
PRINCIPLES
CLIENT FOCUS
RESPECT FOR THE INDIVIDUAL
TEAMWORK
RESPONSIBLE CITIZENSHIP
INTEGRITY
Merrill Lynch
$2,435,000,000
TIME WARNER
Time Warner Inc.
1,680,000,000普通H股
Merrill Lynch's Shanghai office marks new era
BEIJING—Merrill Lynch and Co. opened a representative office in Shanghai Friday, becoming the first U.S. securities company to operate in China.
The Shanghai operation, Merrill Lynch International Inc., will provide advi
Merrill Lynch Earnings Top $1.3B
1,680,000,000 Class H Ordinary Shares
Shanghai Petrochemical Company Limited
上海石油化工股份有限公司
Forbes
Merrill at the half-trillion mark
In record year for Reits, Simon Property deal shines

THE DIFFERENCE BETWEEN RECOGNIZING A GREAT YEAR AND NOT FORGETTING HOW WE GOT THERE

Last year, Merrill Lynch was responsible to more countries, companies and individuals, with more underwriting and financial advice in more markets and across more borders, than any firm in history.

We succeeded, as we always have, by letting our principles light our way; by focusing on our clients and building long-term relationships with them; by using teamwork to deliver seamless integration of our services; by respecting our clients and colleagues as individuals; by acting as responsible citizens in the communities where we live and work; and above all, by maintaining our reputation for integrity.

The world changed greatly in 1993. People, nations, capital, and markets all grew closer, creating unprecedented opportunities for the growth and prosperity of humankind. But while the world grows smaller, it also grows more complex. More than ever, helping clients navigate in this complex global marketplace requires global resourcefulness, strategic perspective and creativity.

1993 was also a year in which the world increasingly recognized these qualities in Merrill Lynch. Our firm was cited as "Equity House of the Year" by *International Financing Review* and as "best overall manager of corporate financings" by *Corporate Finance*. The landmark transactions that Merrill Lynch joint lead-managed for YPF, and lead-managed for Simon Property Group and Fannie Mae, were named "Deals of the Year" by *Investment Dealer's Digest*. And our Global Economics and Research group was top rated in both the *Institutional Investor* and *The Wall Street Journal* polls. In a survey by Towers Perrin, senior bank executives rated Merrill Lynch "the best managed non-bank retailer" in the U.S.

More important than any of these honors, however, is the trust that our clients continue to place in us. Last year, assets entrusted to us by individual clients grew to nearly $540 billion—more than any other firm. Clients continued to seek planning advice and guidance from our Financial Consultants, the most extensively trained in the industry. And they continued to rely on our FCs to help them choose from the most comprehensive array of products and services to meet their needs.

Fifty-four years ago, our founder, Charles E. Merrill, declared: "Our clients' interests must come first. Upon our ability to satisfy them rests our chance to succeed."

We'll stand by that statement. It got us where we are. We know it will still make a difference fifty-four years from now.

The difference is Merrill Lynch.

Merrill Lynch
A tradition of trust.

THE WEEK AHEAD

UK COMPANIES

■ **TODAY**
COMPANY MEETINGS:
Avon Rubber, Melksham House, Melksham, Wilts., 2.30
BOARD MEETINGS:
Finals:
EFM Java Tst.
French Property Tst.
Hotspur Invs.
P & P
Tullow Oil
Waste Management Intl.
Interims:
Black (Peter) Hldgs.
Bryant Grp.
Dalgety
US Smaller Co's Inv. Tst.

■ **TOMORROW**
COMPANY MEETINGS:
Apollo Metals, National Motorcycle Museum, Coventry Road, Bickenhill, Solihull, W. Midlands, 10.30
BOARD MEETINGS:
Finals:
Hambros Currency Fd.
Hambros Eurobond & Money
Lloyds Abbey Life
Reuters Hldgs.
Stora
Warrants & Value Inv.
Interims:
Betacom
Fleming Enterprise Inv. Tst.
Fleming Overseas Inv. Tst.
Heiton Hldgs.

■ **WEDNESDAY FEBRUARY 9**
COMPANY MEETINGS:
Archer (A.J.), Old Library, Lloyds, 1 Lime Street, E.C., 10.30
Compass Grp., Queen's Wharf, Queen Caroline Street, W., 3.30
Granada Grp., Carpenters' Hall, Throgmorton Avenue, E.C. 11.00
Radio Clyde, Clydebank Business Park, Clydebank, Glasgow, 12.00
Sturge Hldgs., Institute of Chartered Accountants, Moorgate Place, E.C. 11.30
BOARD MEETINGS:
Finals:
Grahams Rintoul Inv. Tst.
Scottish American Inv.
Updown Inv. Co.
Interims:
Elbief
Grosvenor Inns

■ **THURSDAY FEBRUARY 10**
COMPANY MEETINGS:
Denmans Electrical, Narrow Quay House, Prince Street, Bristol, 12.30
Dobson Park Inds., Ironmongers Hall, Shaftesbury Plave, Barbican, E.C. 11.00
Electra Inv. Tst., 65 Kingsway, W.C. 12.15
Morland & Co., The Brewery, Ock Street, Abingdon, Oxon, 12.30
Quality Care Homes, Swallow King's Head Hotel, Priestgate, Darlington, 11.00
Watson & Philip, Strathtay House, Dundee Technology Park, Dundee. 12.30
BOARD MEETINGS:
Finals:
Drayton Far Eastern Tst.
Ramsden's (Harry)
Seecon
Interims:
Amstrad
Kleinwort High Income

■ **FRIDAY FEBRUARY 11**
COMPANY MEETINGS:
API Grp., Howard Hotel, Temple Place, Strand, W.C., 12.30
Burndene Invs., 22 Hanover Street, Edinburgh, 10.30
Leveraged Opportunity Tst., 30 Queen Anne's Gate, S.W. 12.30
BOARD MEETINGS:
Finals:
Baldwin
Flying Flowers
General Cons. Inv. Tst.
Lloyds Bank
Interims:
Armour Tst.
Intereurope Technology

Company meetings are AGMs unless otherwise stated.
Please note: Reports and accounts are not normally available until approximately six weeks after the board meeting to approve the preliminary results.

DIVIDEND & INTEREST PAYMENTS

■ **TODAY**
Am. Medical Int. 11¼% Nts. 1995 £562.50
Barcom 1.75p
Brit. Petroleum 2.1p
Cosmos Sec. FRN Y2751781.0
Japan Dev. Bank 8⅝% Gtd. Nts. 1995 $431.25
Johnson Matthey 3.4p
Mazda FRN Aug.1996 Y66986.0
Do. FRN Nov.1996 Y66986.0
M & G Grp. 15p
Refresh Tranche A Perp. FRN Y2700822.0
Do. Tranche B Y2751781.0
Salvesen (C) 3.3p
Sanderson Elects. 5.4p
South West Water 10⅝% Bd. 2012 £1062.50
Volex 6.5p

■ **TOMORROW**
Huntingdon Int. 1.9p
I & S Optimum Inc. Tst. 1.85p
Northern Foods 6¾% Cv. Sb. Bd. 2008 £33.75
Somic 1p
Tate & Lyle 8.7p
Worthington Grp. 0.8p

■ **WEDNESDAY FEBRUARY 9**
Barclays Bank 9⅞% Bd. 1999 $99.02
Bass 14.35p
Bristol Water 11.1p
Do. N/Vtg. 11.1p
Coats Viyella 6¼% Snr. Cv. Bd. 2003 £31.25
Hapoalim Int. Gtd. FRN 2000 $217.22
Perstorp Free B SKR4.80
Radio Clyde 6p
Readicut Int. 0.63p
Scapa Grp. 1.65p

■ **THURSDAY FEBRUARY 10**
Albrighton 0.1p
Am. Express $0.25
Apollo Metals 2.4p
Bristol & West Bldg. Scty. FRN 1994 £144.93
Conversion 9¾% 2001 £4.875
Goodhead Grp. 0.05p
London Electricity 7.4p
Pall $0.0925
Storehouse 2.5p
Treasury 6% 1999 £1.4384

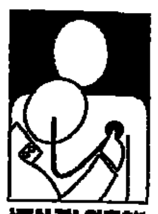
■ **FRIDAY FEBRUARY 11**
Charter Cons. 8¼% Nts. 1994 $412.50
London Merchant Sec. 0.8p
Quadramatic 1p
Racal Elects. 1.5p
Scottish Inv. Tst. 3.2p
Scottish & Newcastle 5.99p
Sterling Inds. 1.8p
Syltone 1.625p
Vodafone 4.12p
Watson & Philip 9.9p

■ **SATURDAY FEBRUARY 12**
Tesco Capital 9% Cv. Cap. Bd. 2005 4.5p

MANAGEMENT

Carol Cooper on a simple drug with benefits for the heart

An aspirin a day keeps doc away



Aspirin goes back to the brew of willow leaves Hippocrates concocted to relieve labour pains in around 400 BC. In the 19th century the active ingredient, salicylic acid, was used for fevers and rheumatism; this was soon followed by the introduction of acetylsalicylic acid, or aspirin.

Pain and fever are relieved by aspirin as it reduces the formation of prostaglandins, substances which mediate inflammation. Taken half an hour before eating, it may also be a *useful treatment* for some food sensitivities. Importantly, aspirin blocks thrombosis by stopping platelets clumping together. That anti-clotting action makes aspirin one of the most effective remedies for 20th-century diseases.

Treatment with aspirin to prevent a second heart attack is now fairly widespread; many people in middle-age and beyond take half an aspirin daily after their first heart attack.

Aspirin can even help at the time of a suspected heart attack; it could save many lives. New and expensive thrombolytic agents ("clotbusters") are not suitable for everyone, but aspirin can make all the difference, especially in the time before the patient reaches hospital when nearly a third of such patients die.

As well as seeking medical help, anyone with crushing chest pains would be well advised to take an aspirin right away. The recommended dose is 162.5 mg or more; in the UK a standard aspirin containing 300 mg will do.

In angina, aspirin can help prevent clots forming in the narrowed parts of arteries. It is especially useful in unstable angina, where attacks are frequent and poorly controlled, and there is a one-in-six chance of a heart attack occurring in the next 12 months.

In much the same way, the drug can help prevent strokes that are caused by thrombosis. It may, however, worsen strokes due to bleeding, so it is important to have a precise diagnosis.

In the British Medical Journal last month an overview of 150 trials involving more than 100,000 patients was published. The analysis strongly suggested that aspirin could help almost anyone with established blood vessel narrowing in many parts of the body.

In patients at high risk, aspirin – like other anti-platelet treatments – reduces the risk of death by about one sixth. The risk of non-fatal heart attack and stroke is cut by about one third.

The message must be to give aspirin to anyone at risk of heart attack, stroke or arterial narrowing in the legs unless there is a particular reason to expect serious side effects.

Contrary to previous opinion, aspirin also helps prevent clots in veins. Used around the time of major operations, it could halve the risk of potentially fatal deep vein thrombosis.

In the laboratory, aspirin has been shown to inhibit the growth of induced tumours in mice and rats. Now several studies in humans hint at a link between aspirin intake and low risk of bowel cancer. This may be cause-and-effect or some other kind of association – perhaps people who take aspirin have healthier lifestyles, for instance.

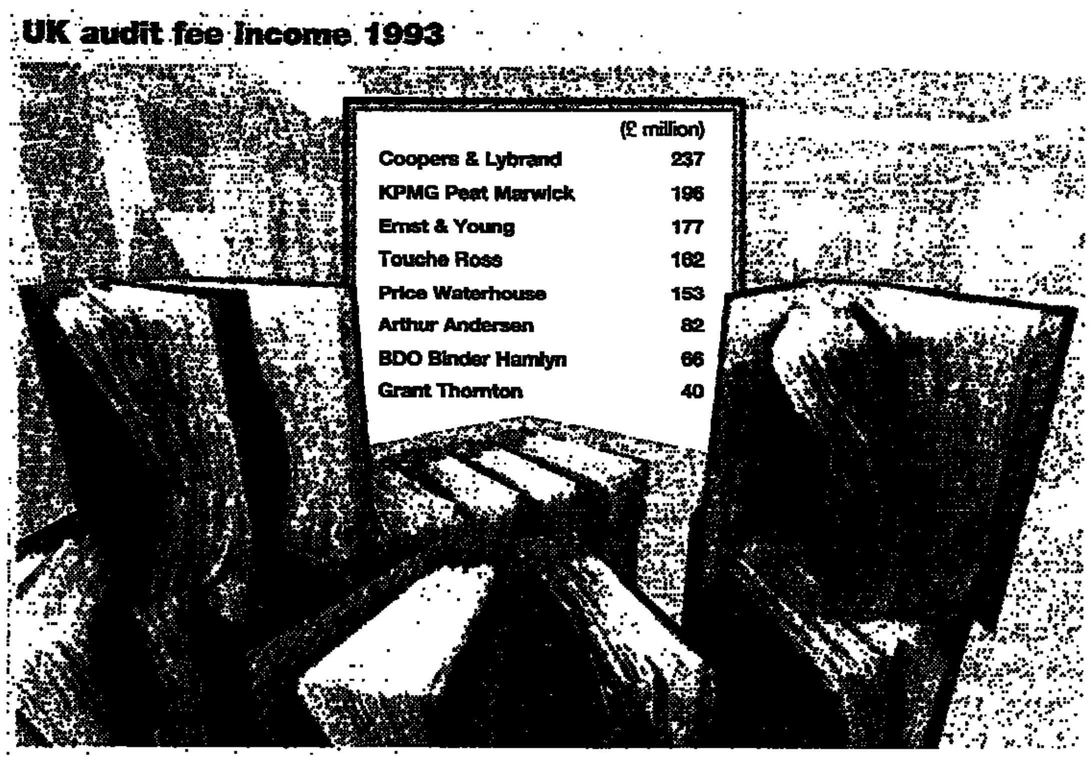
Should everyone take aspirin routinely? The answer so far is no. There is no suggestion that regular aspirin will do much for those already at low risk of heart attack or stroke.

Aspirin does have a number of potential side-effects. It can, for instance, cause gastric bleeding and ulcers, and in some people produce severe allergic reactions. It can damage the kidney and perhaps the liver, which is why paracetamol is the preferred pain-reliever for the under-12s. For those at low risk of heart attack or stroke, the risk/benefit ratio increases as side-effects become more important.

The author is a London general practitioner.

Auditing the auditors

As the results season approaches, **Andrew Jack** looks at how to get the best out of the annual audit



UK audit fee income 1993

	(£ million)
Coopers & Lybrand	237
KPMG Peat Marwick	196
Ernst & Young	177
Touche Ross	162
Price Waterhouse	153
Arthur Andersen	82
BDO Binder Hamlyn	66
Grant Thornton	40

As auditors scurry to complete their work for companies with December year-ends, now is the time for directors to concentrate on getting best value for their money.

Managers too often view the audit as a time-consuming, annual chore. But by negotiating fees, improving their internal planning, and asking the right questions, boards can gain considerable benefits from an unloved exercise.

The first stage – which must begin long before the audit work gets under way – is to agree a reasonable fee with the auditor. Growing competition between accounting firms and increasing concern among companies over fees means that auditors cannot automatically just add a percentage to the previous year's bill.

One increasingly popular technique for keeping fees low is to threaten to put the audit out to tender.

"We have a fairly hard-nosed negotiation each year about audit fees with a view that we could always go to someone else," says Roderick Paul, chief executive of Severn Trent, the privatised water company, whose audit firm is Price Waterhouse. "The thought of changing is always there."

Background knowledge helps the process in this case. Paul and a fellow director both trained as accountants and so have an understanding of auditing from the other side of the fence. They also keep a close eye on the reported audit fees charged to their competitors.

A second way to reduce audit fees is to be heavily involved at the planning stage, ensuring that the exercise best meets the company's needs and links most efficiently to its own systems and staff.

That leads to an estimate based on the hours likely to be needed and the appropriate charge-out rates for different levels of staff and partners.

Paul says he holds extensive discussions over the plan for the audit, which is agreed in advance with the executives and the company's audit committee. "We consider to what extent it dovetails with the work of the internal audit department."

Michael Derbyshire, banking relations manager with Unilever, endorses this approach. "One of the ways of keeping the bill low is to keep a tight ship with good internal controls," he says.

Ensuring that the company meets its obligations within the audit plan is an essential part of keeping costs down. Alan McFetrich, a senior partner with Coopers & Lybrand, recalls a client company in the late 1980s which demanded that its audit fee of nearly £1m be reduced.

The firm agreed to a bill of about half the price, on condition that its hours could be reduced through more efficient delivery of information by the company being audited.

As it turned out, the client missed its deadlines and failed to deliver as agreed, hence increasing the amount of work the auditors had to do, and raising the final audit fee to more than £1m.

Once the audit is completed, there are other ways to squeeze value out of the process. In particular, many executives and accountants point to the need for detailed discussion and recommendations for change.

"You ought to expect auditors to bring their knowledge of similar organisations and draw comparisons," says Robert Sandry, a partner with Price Waterhouse.

Martin Scicluna, a partner with Touche Ross, says: "Ask the partners for their off-the-record views on the strengths and weaknesses of the business, systems and people, and for informal benchmarking with other companies, which they can provide on a no-names basis."

He adds that a good auditor should also draw the board's attention to the likely impact of future accounting, auditing and regulatory changes which might affect them in the coming year, giving them plenty of time to plan in advance.

Most audits generate reports for management which highlight concerns raised during the work and make recommendations. But an academic survey published last year suggested that senior executives believe the letters are often repetitive and could be substantially improved.

"The profession has an awful tendency to obfuscate," says Roger Davis, head of auditing at Coopers & Lybrand. "People don't want long, turgid reports but simple language that says things as they are."

The letter should, in any case, only be the starting point for a wider discussion. Derbyshire recommends that boards should consider how the audit worked. "Where the auditors spent their time is quite revealing," he says.

On the other hand, he warns against treating auditors' views too seriously. "Sometimes they get hold of the wrong end of the stick and the real problem is not what they highlight but something associated with it," he says.

Paul is also suspicious of auditors veering too far into offering wider consulting services, which may trigger conflicts of interest. "We do pick up on their comments but we try to focus on the auditing issues such as the state of our systems," he says.

As a last resort, if the audit bill still seems too high, directors always have the option of sending it back and demanding a reduction. In the extreme, they can always seek arbitration through the professional accountancy bodies. As Paul says: "Management gets the audit fee it deserves."

A quick quiz . . .

Can management science be taught or is it common sense? Try this true/false quiz to test your ability.

1. Relatively few top executives are highly competitive, aggressive and show "time urgency". 2. In general, women managers show higher self-confidence than male equivalents and expect greater success in their careers. 3. Slow-learners remember more of what they learn than *fast-learners*. 4. To change behaviour towards new technology, we must first change attitudes. 5. The more highly motivated the better you will be at solving a complex problem. 6. The best way to ensure that high-quality work will persist after training is to reward behaviour every time, rather than intermittently, when it occurs during training. 7. English-speaking people with German ancestors/relations find it easier to learn German than English-speaking people with French ancestors. 8. People who graduate in the upper third of the A-levels table tend to make more money during their careers than average students. 9. After you learn something, you forget more of it in the next few hours than in the next several days. 10. People who do poorly in academic work are usually superior in mechanical ability. 11. Most high-achieving managers tend to be high risk takers. 12. When people are frustrated at work they frequently become aggressive. 13. Successful top managers have a greater need for money than power. 14. Women are more intuitive than men. 15. Effective leaders are more concerned about people than the task. 16. Bureaucracies are inefficient and represent a bad way of running organisations. 17. Unpleasant environmental conditions (crowding, loud noise, extremes of temperature) produce immediate reduction in performance on many tasks. 18. Face-to-face communications usually enhances co-operation between workers. 19. Women are more conforming and open to influence than men. 20. Because workers resent being told what to do giving employees specific goals interferes with performance.

Adrian Furnham

Answers on tomorrow's Growing Business page.

BUSINESS TRAVEL

Estimated time of arrival: two days late

Michael Skapinker on readers' distressing airline experiences

We recently asked travellers to tell us their tales of obstructive airlines and how to overcome them. Readers told us of flights delayed for days and of messages to families that were never delivered. One complaining passenger was warned that the airline was big and he was not; if he took legal action, the company would appeal on every procedural point until the traveller ran out of money.

The most startling story was of a passenger on a delayed aircraft in New York, who was forced by security guards to hand over film from his camera because he had taken pictures on board.

A persistent theme of the letters we received was the airlines' attempts to fob passengers off with flimsy excuses and *inadequate compensation*. Mr David Darby, a London patent agent, wrote to Continental Airlines last August about a flight his wife and two children had been scheduled to make from Newark, New Jersey, to London. Because the flight was overbooked, they were put on an aircraft to Frankfurt, with three $200 vouchers as compensation.

Mr Darby wrote to the airline to say his family were entitled to cash under European Community regulations. Continental wrote back to say they were not, as the journey began in the US and not the EC.

Not true, Mr Darby wrote back. The regulations covered flights starting or ending in the EC. You are quite right, a Continental customer relations official replied. "I must apologise that the previous correspondence was not factual," she said. Mr Darby's perseverance paid off.

Mr Chandrakant Rabheru, however, a director of a London import and export company, has been waiting 16 months for a written explanation of why his family in the UK was not informed that his British Airways flight from Bombay had been delayed. The flight, which was due to leave Bombay for London at 1.05am on October 11 1992, finally departed at 6.45 in the evening. Mr Rabheru says he gave BA four alternative telephone and fax numbers on which to contact his family. BA staff in Bombay told him his relations had been informed. They had not.

Mr Rabheru, a regular BA customer, says the airline apologised on the telephone, but his requests for a written explanation were ignored. BA says it has since transferred all complaints to a new computer system to ensure a quicker response. However, Mr Rabheru's complaint predated the system and BA can no longer trace it.

None of the stories we received, however, matched the drama of a Virgin Atlantic flight to London, scheduled to leave JFK airport in New York at 7.15pm on Friday, January 7.

Mr Michael Walsh, group finance director of public relations consultants Dewe Rogerson, who was on the flight, says passengers boarded the aircraft but were told take-off would be delayed while de-icing took place. Then they were told a navigation instrument was faulty.

Passengers asked for something to eat and drink, but were told they had to be ready to take off at any time. They were not given anything to eat until after midnight. At 2.30am the captain announced that the flight had been cancelled.

They were taken to a hotel in New York and eventually told that their flight would be leaving at 7pm on Saturday. But there were further delays due to icy conditions. At 3am on Sunday, the aircraft took off. Shortly afterwards, passengers heard there was a further problem with it, and that they would be returning to JFK. They arrived back at their hotel at 5am on Sunday.

Mr Walsh was then told he had been booked on a flight leaving JFK at 9pm on Sunday. He arrived home in London at 10.15am on Monday, two days later than planned.

Mr Richard Hamersley, a London solicitor, was on the same flight. While waiting to take off on the Friday night, he decided to photograph a Virgin representative who was assuring passengers all would be well.

Two Virgin security guards, one armed, asked him to step behind a curtain on the aircraft. "The thoroughly unpleasant verbal assault that [then] took place was quite unjustified in the circumstances," he wrote to Virgin on his return.

He says he was taken to the front of the aircraft in full view of his fellow passengers and made to hand the film to the captain. (The captain later returned it to him by post.) He wrote to the company: "Your security guards were unable to give me any authority for their proposition that my photograph was illegally taken."

Passengers were handed written apologies from Mr Richard Branson, Virgin's chairman. Mr Walsh has reached a compensation agreement with Virgin. The company says it is investigating Mr Hamersley's complaint.

Of course, the letters we received represent a tiny proportion of flights taken by our readers. Most flights pass without incident. What is noticeable, however, is readers' long memories of those that go wrong.

Mr Peter Tray, owner of a London export/import concern, recalls a flight he took in 1953 from Switzerland with British European Airways, one of BA's predecessors. Because of fog in London, passengers were put on a Swissair flight to Paris, where no one from BEA knew anything about them.

Spotting a BEA aircraft on the tarmac, the nine passengers concerned found an airline representative and demanded to be flown home. Mr Tray recalls: "He could only splutter: 'But you can't possibly expect me to authorise an aircraft for just nine passengers.' In the best pantomime tradition, we all chorused: 'Oh yes, we can.'"

If he didn't, they told him, they would debag him. They were flown home.

Those were the days.

Clive Cookson explains why it is increasingly difficult to see through aircraft windows

Seat without a view

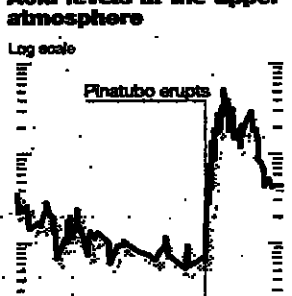
"As we cruise at 37,000 feet, passengers on the right-hand side of the aircraft can enjoy a spectacular view of the Greenland ice-cap glinting in the sun..." Or rather, they could if it were not for the sunlight glinting back from the network of tiny cracks on the outside of the cabin windows.

This "crazing" of the plastic (acrylic) windows fitted to cabins of all modern aircraft often irritates frequent flyers, whose view is obscured by eye-wearying dazzle. And airlines confirm passengers' impressions that the problem has become much worse over the past two years or so.

Scientists say the cause of the current crazing epidemic is a large increase in the concentration of sulphuric acid droplets in the atmosphere.

Volcanic eruptions are ultimately responsible. The main culprit is Mount Pinatubo in the Philippines, which has released an estimated 20m tonnes of sulphur dioxide into the upper atmosphere since June 1991.

Acid levels in the upper atmosphere



Source: Nasa

"Although the acid concentration is now falling, there are still 10 times more suphuric acid particles in the atmosphere than there were before the eruption, and it will take several years to get back to the pre-Pinatubo level," says Dr Lamont Poole, an atmospheric specialist with the US National Aeronautic and Space Administration.

Crazing is not a safety issue because it only affects the windows' outer surface and does not weaken their structure. (Cockpit windows are made of glass laminate, not plastic, and are not affected by acid.)

Even so, airlines are responding to their passengers' concern by changing cabin windows more frequently than before. The acrylic is designed to have a normal working life of 20,000 flying hours, equivalent to five years of operation. But British Airways, for example, now checks all windows every 15 to 18 months and finds that many need to be replaced then.

The long-term solution is to develop new windows with greater acid resistance. BA has a joint programme with Boeing, the US aircraft manufacturer, to flight test alternative materials. One BA 747-400 jumbo jet is flying with 11 different window types fitted by Boeing; another has four more types made to BA's own specification.

"Our long-term goal is window working life that pushes the current five-year norm to eight years," says Mr Russ Jones, BA chief fleet engineer.

Meanwhile Pilkington Aerospace, California-based subsidiary of the UK glass company, is promoting CrystalVue, a new cabin window which it says is two to three times more resistant to crazing than previous materials. Its acrylic composition absorbs less water from the atmosphere – low water absorption reduces acid attack – and for additional protection it is coated with a thin layer of polysiloxane.

Pilkington's launch customer, Japan Airlines, has flown Boeing 747s fitted with CrystalVue for up to 20,000 hours on its polar routes, where there is greater exposure to acid than at lower latitudes. All the passengers still have a craze-free view of the ice cap.

Help for EU airlines

European Union transport ministers meet this week in Athens to discuss plans to help European airlines, which lost a combined $2.2bn in 1992.

Countries such as France and Italy are in favour of increased aid for the industry while others, including the UK, are pressing for limits to subsidies and more competition.

Meanswhile, the 221 world airlines of the International Air Transport Association last week reported strong growth in air traffic but no profits last year. Passenger traffic rose 6 per cent in 1993, but the airlines still expect to report a net loss on the year.

While some companies are profitable, many more have made large losses. Cut-price offers have not made up for a decline in the amount of lucrative business travel.

Italian link

Alitalia, the loss-making Italian state airline, and the US airline Continental have agreed to co-operate on serving some key routes between the US and Italy, according to Italian newspaper reports.

The two airlines are said to have signed a letter of intent to join forces on flights linking Rome and Milan with Newark and Houston.

Trouble spots

Visitors to Egypt are advised to take special care following new threats of violence by Islamic extremists. Seven foreigners have died and many more been wounded in attacks in Upper Egypt and Cairo.

Visitors should avoid the Assiut and Dairut areas and behave and dress discreetly.

Street crime is on the increase in Venezuela, particularly in Caracas, Maracay, Valencia and Maracaibo. Travellers should use official taxis, although the metro and buses in Caracas are generally safe. Taxi tickets can be bought in the terminal of Caracas International Airport.

Public sector unions in Portugal plan another 24-hour strike on February 11.

Carnival time

Business travellers to Rio de Janeiro should ensure they have confirmed hotel bookings during the five-day Carnival holiday which begins on February 12. Tourists have not been deterred by reports of crime and gang violence in the Brazilian city and local hoteliers say they are fully booked.

Likely weather in the leading business centres

	Mon	Tue	Wed	Thur	Fri
Tokyo	10	14	9	10	13
Hong Kong	25	21	22	23	22
London	7	4	6	10	12
Frankfurt	3	3	2	3	3
New York	5	2	0	7	3
L. Angeles	13	13	17	18	19
Milan	5	7	8	8	9
Paris	8	8	6	6	8
Zurich	2	5	3	2	4

Maximum temperatures in Celsius
Information supplied by Meteo Consult of the Netherlands

THE MONDAY *People* page

Kawamoto faces reality with a smile

Honda's chief gives **Michiyo Nakamoto** his reactions to Rover's deal with BMW

BMW brings a broad smile to the wrinkled face of Mr Nobuhiko Kawamoto, president of Honda. "Of course we were surprised," he chuckles. "I thought, so that is the way it is going to be after all."

It was the end of the week in which BMW made its audacious move to buy 80 per cent of Rover Group, the British car manufacturer in which Honda has a 20 per cent stake. Yet Mr Kawamoto appeared able to talk with equanimity about the German competitor which, to many in Tokyo, has impudently intruded upon a 15-year-old relationship that was moving along quite happily without it.

In a comfortable lounge overlooking the fashionable Aoyama district where the company's Tokyo headquarters is located, the genial Mr Kawamoto hardly appears angry and resentful as he was sometimes portrayed in the aftermath of the announcement.

It emerges that the lengthy relationship between Honda and Rover did little to bridge the gulf in business culture between the Japanese group and Rover's British owners.

Honda's technology, production and management methods are woven into the way Rover factories work. But on larger issues of corporate governance – the obligations a company owes to workers and communities as well as shareholders and customers – BAe's handling of the Rover sale is apparently inexplicable for Honda.

Mr Kawamoto, in his first interview since the sale, says: "We made a proposal based on our principle and if that was not going to be accepted then there was nothing we could do about it."

Honda had not wanted to take over the entire company even though it had the option to do so. "Mr (George) Simpson (the Rover chairman) came on January 28 and said they were making this decision and was that all right with us. We had the choice at the time to buy the whole company."

But doing so would have gone against a Honda principle: a car manufacturing enterprise plays such an influential role in the country in which it is based that ultimately it should be controlled by the people of that nation.

"Car manufacturing has a very big social responsibility, in terms of employment and resources, not just towards the current generation but towards future generations as well. It is not possible to manage a car manufacturer without taking that into consideration. That is our belief."

Mr Kawamoto is not suggesting that foreign ownership leads to a lack of responsibility. But Rover's case is special. "Rover was the last original UK car company. I think it is acceptable to take a 100 per cent stake in a company if there are a lot of other car companies and if it is not the last one to be controlled by the people of that country and if doing so does not have such a crucial impact on the country's car industry."

"Because Rover was the last, and the only, car company that is British, we judged that it should be left British. That is not out of sympathy. We think it is too simple to judge everything in terms of value for shareholders and customers alone."

The difference in Honda and BAe's priorities shocked the executives cloistered at Aoyama. "Rover's capital was sold, 100 per cent, all at once, to a foreigner and I was surprised at the wide gap in our ways of thinking."

"BAe never discussed with us how Rover's business could be improved. BAe never approached us about that. Instead, we were suddenly told that BMW was interested and what did we think. But I don't think manufacturing, which is a process involving the combined efforts of an enormous number of people, is so simple that the fate of a company can be decided in two or three months. That is our way of thinking."

Mr Kawamoto acknowledges that "there is no doubt that this is one side of modern business. Honda's top management, and we have had many discussions about the turn of events, are realists."

This realism characterises Mr Kawamoto's approach to Honda's European strategy as well as the company's relationship with Rover and its German parent. "There are so many possibilities, aren't there? So until we hear what BMW has to say we cannot make any decisions. However, even up to now we have respected Rover as an independent company and our relationship was one of two independent companies."

His realism is combined with a stoicism that does not allow any moping over what has happened. Asked whether he is concerned about Honda technology at Rover passing into BMW's, the smile disappears from Mr Kawamoto's face. "The reality is that what technology is at Rover will go to BMW and that is the reality. That is the truth, whether we like it or not. It is the truth and we accept it as such."

Honda has already gained much from its efforts to remake Rover. "Rover has become a much better company in the past 15 years and as a result we have been able to receive cars manufactured by Rover which are purely European and sell them in areas of Europe where the cars had to be made in Europe."

Mr Kawamoto stresses that Honda is open to many possibilities for the trilateral relationship, although would pull out if Rover lost its British status as a result of BMW control.

"The only precondition is that we will stick to our principles and other than that everything depends on whether it makes good business sense. Rover's significance (to Honda) as a British company will be lost, but I do not think it is easy for a business relationship that has been built up over 15 years to change tomorrow."

Although by all measures, Mr Kawamoto has recovered from any initial shock and resentment he may have felt and he is ready to make the best of the situation, a nagging question remains. "The British view that it is not necessary to be concerned about the nationality of capital . . . what I don't understand about this is, if you take the case of Japan, industry is the only way to survive, but I wonder how the British people expect to make a living in the future. The money game is fine and there must be a business logic to it all but how do people expect to make a living in future, I must study this some more. I would like to know."

Personae . . .

Canadian dark horse for OECD

Don who? The news that Canada's Don Johnston has emerged as the dark horse in the four-way race to fill the secretary-general's post at the Organisation for Economic Co-operation and Development has caught many non-Canadians by surprise, writes Bernard Simon.

Johnston is little known beyond Parliament Hill in Ottawa, or the legal fraternity in Montreal, his home town. But he is undoubtedly both a serious and a strong contender for the OECD job against Lord Lawson, the former UK Chancellor of the Exchequer, Lorenz Schomerus, a former chairman of the OECD trade committee, and the present incumbent, France's Jean-Claude Paye.

Johnston's big advantage is that some powerful OECD members, notably the US, want a non-European with both a political and an economic background in the OECD's Paris headquarters. Johnston, aged 57, fits the bill – and he speaks French. Described by one friend as "approachable, very principled and very independent-minded", he is a trained lawyer with a keen interest in taxation, industrial strategy and development issues.

It was former Canadian prime minister Pierre Trudeau, an old client, who persuaded him to enter politics in the 1970s. Johnson managed the trust into which the prime minister had put his personal assets. He went on to hold several middle-ranking cabinet portfolios until his Liberal Party lost the 1984 general election.

Then he sat on the opposition benches for four years as the Liberals' finance and external affairs spokesman, but quit politics in 1988 after a disagreement over the party's policy towards Quebec. He is currently the party's president, or chief executive, and also sits on the board of BCE, Canada's biggest public company.

Johnston tried to re-enter politics in the run-up to last year's general election but he lost a messy battle for the Liberal nomination in his former upper-crust Montreal constituency.

By putting Johnston's name forward for the OECD job, the present prime minister Jean Chretien appears to have sent him a message that last year's setback may turn out to have been a blessing in disguise.

Coleman: the favourite for BankAmerica

At 63, and with two of the biggest US bank takeovers under his belt, Richard Rosenberg shows no sign of letting up. The BankAmerica chairman was in ebullient mood recently as he announced the $1.9bn acquisition of Continental Bank, a Chicago-based corporate bank. The money must now be on his completing at least one more – perhaps of a big retail bank in his native New England – before handing over the reins.

Rosenberg came late to the top job at the US's second-biggest bank. He was already 60 when he took over in May 1990 after a retail banking career spent largely at Wells Fargo, but also with brief spells at Crocker and Seafirst (a BankAmerica subsidiary).

Age is unlikely to curtail his career soon. Tom Clausen, BankAmerica's last chairman, did not step aside until he was 67. The two men have little else in common; Clausen, who had led the World Bank, was one of the most prominent international bankers of his generation. Rosenberg, on the other hand, has earned a formidable reputation building retail banking businesses first at Wells Fargo and more recently at BankAmerica.

When Rosenberg does decide to go, there is a clear favourite to follow him: Lewis Coleman, a vice chairman of the bank and its chief financial officer. Coleman, 51, is one of a group of senior Wells Fargo executives brought into BankAmerica along with Rosenberg in the mid-1980s, and who now form the core of the bank's management.

Unlike Rosenberg, Coleman has spent his career largely in wholesale and international banking. That could prove no bad thing if BankAmerica seeks to grow further from its west coast base to become more like the international banking group that Clausen first moulded in the late 1970s.

Vulture or defender in Venezeula?

Not everybody was pleased by the appointment of Julio Sosa as Venezuela's new finance minister, writes Joseph Mann. One left-wing opposition politician suggested, in the charming manner that characterises Venezuelan politics, that putting Sosa at the head of the finance ministry was like "putting a vulture in charge of dead meat".

Others have a higher opinion. Some businessmen and investors felt that Sosa could emerge as a defender of free market policies or, at the very least, could steer the new government away from economic blunders.

He will have his work cut out. As President Rafael Caldera began his five-year term last Wednesday, Venezuela faces a profound economic crisis: the economy is in recession and inflation rising. The government is short of money because of the low price of oil and the country's second largest bank collapsed last month.

Sosa has been close to the new president for decades, both as an adviser and a friend. Caldera admits he is not an expert in economy and finance, and will rely heavily on Sosa's opinions.

During the first Caldera presidency from 1969-74, Sosa refused a cabinet position, but worked as ambassador to Washington. A father of nine children, Sosa graduated in petroleum engineering in 1945. He studied at Cornell and Oklahoma Universities in the US, as well as at Venezuela's Central University.

He was born into a wealthy Venezuelan family and, after working as a petroleum engineer and an academic, became a successful entrepreneur. He founded and ran Industrias Venoco, a lubricants company, and set up a commercial bank (Banco Orinoco) and an insurance company (Seguros Orinoco).

On his first day in office, Sosa was asked for his plans. He replied: "Well, I'm going to try to start doing what I'll be asking everyone else to do – cutting costs."

LEGAL NOTICES

UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF NEW JERSEY

In re:
MUTUAL BENEFIT OVERSEAS, INC., Debtor.

Case No. 93-20134 (NLW)
Chapter 11

NOTICE OF DISTRIBUTION

TO: Holders of Commercial Mortgage-Backed Bonds Series 1986-1 Issued by Mutual Benefit Overseas, Inc. ("MBO").

MBO is a Debtor-in-Possession in a Chapter 11 case pending in the United States Bankruptcy Court for the District of New Jersey (the "Court"), Honorable Novalyn L. Winfield presiding.

Pursuant to an Order of the Court dated November 8, 1993 (the "Order"), MBO has been authorized, under those terms and conditions stated in the Order, to make interim distributions of funds to holders of MBO's Commercial Mortgage-Backed Bonds, Series 1986-1, in advance of confirmation of any Plan of Reorganization.

MBO intends to make such an interim distribution to Bondholders, pursuant to the Order, of USD 50 million on Thursday, February 24, 1994. The Record Date for such distribution shall be Thursday, February 17, 1994. Citibank, N.A. (N.Y., London, Frankfurt and Brussels) is acting as Paying Agent under the Indenture. All Bonds must be presented to the paying agent(s) in order to be paid. Bonds held at Euroclear and Cedel will be paid through Euroclear and Cedel.

The Payment Rate per $5,000.00 original face amount of Bond is as follows.

9 3/8% Coupon Bonds: $751.64
9 5/8% Coupon Bonds: $760.04
Zero Coupon Bonds: $303.49

SHANLEY & FISHER, P.C.
131 Madison Avenue
Morristown, N.J. 07962-1979
(201) 285-1000
Counsel for Debtor and Debtor-in-Possession
(RM-1098)

CRUMMY, DEL DEO, DOLAN, GRIFFINGER & VECCHIONE
A Professional Corporation
One Riverfront Plaza
Newark, New Jersey 07102-5497
(201) 596-4500
Counsel for Official Creditors Committee
(PD-9779)

In the High Court of Justice
No. 00256 of 1994
Chancery Division
Mr Registrar Buckley

IN THE MATTER OF
WEST TRUST
PUBLIC LIMITED COMPANY
AND
IN THE MATTER OF
THE COMPANIES ACT 1985

NOTICE IS HEREBY GIVEN that a Petition was on the 14th day of January 1994 presented to Her Majesty's High Court of Justice for the confirmation of the reduction of the share premium account of the above-named Company by the sum of £1,093,977 from £2,705,769.52 to £1,611,792.52. AND NOTICE IS FURTHER GIVEN that the said Petition is directed to be heard before Mr Registrar Buckley at the Royal Courts of Justice, Strand, London WC2A 2LL on Wednesday the 23rd day of February 1994.

ANY Creditor or Shareholder of the said Company desiring to oppose the making of an Order for the confirmation of the said reduction of the share premium account should appear at the time of hearing in person or by Counsel for that purpose. A copy of the said Petition will be furnished to any such person requiring the same by the under-mentioned Solicitors on payment of the regulated charge for the same.

Dated this 7th day of February 1994
Edge & Ellison
18-19 Southampton Place
London WC1A 2AJ
Telephone: 071 404 4701
Reference: PT/8050
Solicitors for the above-named Company

LIGHTSHIP PLC
Registered no.: 53127
Trade classification: 8629
LIGHTSHIP INVESTMENT COMPANY LIMITED
Registered no.: 2516782
Trade classification: 9900
H & T FINANCE LIMITED
Registered no.: 2129814
Trade classification: 8629
H & T CORPORATE FINANCE LIMITED
Registered no.: 2286389
Trade classification: 8629
Date of appointment: 28 January 1994
by whom appointed: Barclays Bank plc
Date of charge: 27 March 1991
Nature of charge: Mortgage Debenture
I RUDDOCK and N H COOPER
Joint Administrative Receivers
office holder nos. 6877 and 5399) of
ROBSON RHODES, THE GALLERIA, STATION ROAD,
CRAWLEY, WEST SUSSEX RH10 1HY

NOTICE OF APPOINTMENT OF ADMINISTRATIVE RECEIVERS

BLESSVALE LIMITED

Name of Company: Blessvale Limited. Registered No: 1367330. Trade Classification: 23. Name and address of joint administrative receivers: David John Stokes and Michael Joseph Moore, Coopers and Lybrand, 1 East Parade, Sheffield, S1 2ET. Office holder numbers: 2682 and 5562. Date of appointment: 27 January 1994. Name of appointer: National Westminster Bank PLC

IN THE HIGH COURT OF JUSTICE
CHANCERY DIVISION
No: 00420 of 1994
IN THE MATTER OF SHAFTESBURY PLC
- and -
IN THE MATTER OF
THE COMPANIES ACT 1985

NOTICE IS HEREBY GIVEN that a Petition was on the 21st day of January 1994 presented to Her Majesty's High Court of Justice for the confirmation of the reduction of the capital of the above named Company from £34,600,000 to £16,357,751.50p and of the share premium account of the above named Company by the sum of £5,447,770

AND NOTICE IS FURTHER GIVEN that the said Petition is directed to be heard before Mr Registrar Buckley at the Royal Courts of Justice, Strand, London, WC2A 2LL on Wednesday the 16th day of February 1994

ANY Creditor or Shareholder of the said Company desiring to oppose the making of an Order for confirmation of the said reduction of capital and share premium account should appear at the time of hearing in person or by Counsel for that purpose

A copy of the said Petition will be furnished to any such person requiring the same by the undermentioned Solicitors on payment of the regulated charge for the same

DATED this 7th day of February 1994
Lovell White Durrant, 65 Holborn Viaduct
London EC1A 2DY
Ref: AV/RGP
Solicitors for the above named Company

Architecture/Colin Amery

Hackney learns from Tudor heritage

It seems far from rolling rural England. But there is an ancient Kentish ragstone church tower and a large and shady churchyard sprouting crocuses. You can arrive by train and be almost the only person on the platform. It is hard to believe that you are in the heart of that part of East London that is vibrant and decaying, the London Borough of Hackney.

Last week an event occurred that further confounded the accepted view of this suffering inner city borough – the staid old National Trust opened an historic house there.

Sutton House started its life in 1535 as a country house on the eastern edge of the City of London for Ralph Sadleir, courtier, judge and politician. He was a great survivor who worked for Thomas Cromwell and ended up as one of Mary, Queen of Scots' judges.

The big hall, which dates back to the 1900s and was designed by the Arts and Crafts architect Lionel Crane, was full of children joining in a production of Falstaff with singers from the English National Opera

Sutton House is also a great survivor. It has been a school, men's club and office, and it endured the worst of the London Blitz. In 1936 it was the subject of a concerned letter to The Times from George Lansbury, Labour member of parliament for Poplar, and Lord Esher and Lord Crawford and Balcarres.

They organised a public appeal to save Sutton House and it took the National Trust's intervention, with a legacy given in memory of two men killed in the first world war, to finally secure the Tudor building for the nation.

Somehow the National Trust never quite knew what to do with Sutton House.

It wasn't in their normal country bailiwick and it was tenanted and administered from the remote headquarters in Hughenden manor in Buckinghamshire.

When I first saw the house in the late 1980s it was empty, boarded up and vandalised. There was then a scheme to split it up into flats and sell them.

It was the residents of Hackney, led by one or two particularly fervent locals, who changed the Trust's mind and set in train a determined effort to save the house and return it to the community.

Today Hackney has one of the most intriguing and best preserved Tudor houses, with later additions, to be seen in London.

What is especially inspiring is the way the Trust and the community have decided to use it.

When I was there last week the big hall, which dates back to the 1900s and was designed by the Arts and Crafts architect Lionel Crane, was full of children joining in a production of Falstaff with singers from the English National Opera.

Many Musical events and educational activities are planned to ensure that the house is seen as a teaching resource.

It is a brilliant place to learn about architecture. First of all, approach it from the fine Georgian church and the elegant street of Georgian houses, Sutton Place. Then observe the house, which is almost overwhelmed by the giant concrete sixties Community School across the road.

The house is an "H" shaped plan and was built of brick in the first half of the sixteenth century. One wing was rendered and has new fenestration from the 18th or early 19th century.

Inside the house is one of the best linenfold panelled rooms in London. The Great Chamber on the first floor retains the atmosphere of a Tudor room that showed off the wealth of the owner.

There are good Georgian and Victorian interiors and an exhibition room where the full and complex history of the house is shown. I was extremely impressed by the way the architect Richard Griffiths had not just carried out a meticulous restoration but had added some additions in a completely contemporary way.

The new restaurant occupies a modern conservatory addition built of bronze, ash wood and glass.

It demonstrates that it is perfectly possible to mix the old and the new if they are of matching quality in design and materials.

Sutton House has an appropriate liveliness about it – but this is not at the expense of the historic qualities of the architecture.

School children study courses that bring history alive and there is an architectural course, "Bricks and Building", that would be suitable for adult beginners.

The whole Sutton House Community Scheme has cost £2m and half of this sum has come from the National Trust. Many businesses, livery companies, and private donors have helped to fund the restoration. It is a brilliant cause – the model rejuvenation of Sutton House has brought history and architecture alive in Hackney in a way that has clearly inspired affection and tapped a local enthusiasm in a stirring and remarkable way.

Sutton House can be hired for events and functions and the historic rooms are open on Wednesdays, Sundays and Bank Holiday Mondays from 11.30am to 5.30pm. Telephone for concert bookings and information, 081-986 0221.

Sabine Toepffer

Ulrica's Hut in Tom Cairns' new production of 'Un ballo in maschera'

'Un ballo' falls flat

Andrew Clark reviews the first production to bear Peter Jonas's imprint at the Bavarian State Opera

Peter Jonas has had the misfortune to start his new job in Munich with an artistic flop. *Un ballo in maschera*, the first production at the Bavarian State Opera to bear his imprint as intendant, is leadenly conducted and dramatically inert. Its first-night woes were compounded when Dennis O'Neill developed a throat infection, leaving Jonas to find a substitute tenor at 24 hours' notice. But that alone cannot explain the production's pedestrian impact.

Since his arrival in Munich last autumn, the former ENO general director has adopted a high media profile, preaching renewal, accessibility, a more contemporary style. Backstage and front-of-house, the Jonas charm has worked wonders, just as it did in London. But Jonas himself admitted that the real test would come at curtain-up.

Ballo was a curious way to begin. Verdi has never been central to Munich's repertory, and the success of his operas there has usually depended on a star conductor who knows the style. *Ballo* was in the hands of Jonas's music director, Peter Schneider, who gave the kind of heavy, plodding account one expects in middle-ranking German theatres.

The performance lacked inner tension, textural transparency, a sense of melodic shape. There were too many lapses between stage and pit. Only in the Renato-Amelia confrontation at the start of Act three, with its brassy outbursts and gentle instrumental solos, did Verdi's expressive accompaniment breathe naturally.

The staging was entrusted to Tom Cairns, one of several British-based artists invited by Jonas to work in Munich. On this evidence, Cairns should stick to designing and leave producing to someone else. His decor – a different setting for each scene – mixed surrealist and naturalistic imagery in a variety of distinctive shapes and colours. Ulrica's hut was a transparent white box on a promontory overlooking the ocean. The midnight tryst took place under a giant suspended boulder.

Renato's library was a wedge of space boasting a pair of deer-antlers. There were touches of rococo in the opening and closing scenes. Costumes were historical and handsome.

The visual symbols could have been subtler and the scene changes shorter, but Cairns at least created space for human drama. Sadly, this was where the production degenerated into dullest routine. Cairns made no identifiable impact on the principals, while the chorus movements directed by his co-producer, Aletta Collins, would have been more at home in Gilbert and Sullivan.

None of the cast could flourish in such circumstances, but Julia Varady did her best. This was her debut performance as Amelia, sung from the heart like all her other Verdi heroines, and acted with the vulnerable intensity that distinguishes a noble artist. Wolfgang Brendel's Renato was bland and disengaged. As the last-minute substitute, Kristian Johannsson sounded more of a Turiddu or Calaf than a Verdi stylist. Nina Terentieva was the imposing fortune-teller, Julie Kaufmann a sprightly Oscar. The comprimarios were good.

Ballo may have dented Jonas's credibility, but with the Sawallisch legacy still strong, Munich's loyalty was not to be won on a single production. Operatic traditions and expectations there are a world apart from ENO, and it is fitting that Jonas, the outsider, should work for change gradually. He must find a more inspiring house conductor than Schneider. He also needs to notch up a popular success.

Next month's new *Giulio Cesare*, with Richard Jones, Ivor Bolton and Ann Murray, would do nicely.

Theatre/Andrew St George

Government Inspector' moved to Dublin

Nikolai Gogol (1809-52) wrote *The Government Inspector* in 1834 as a satire on corrupt and craven bureaucrats in Czarist Russia. Now at the Tricycle Theatre, the Dublin-Belfast theatre company Dubbeljoint has transplanted a new version of the play to the peaty environs of county Ulster late last century. At best it is a red-blooded bucolic show; but at worst, the *Inspector* palls.

Gogol's classic of mistaken identity is a gift for situation comedy, ready to be filled out by Marie Jones' rejigged version; and 19th-century Ireland is a fine place for this drama of ossified class and parochial values. But what emerges on stage is more knockabout than thinkabout.

A small provincial town, guilty as sin over a local beef swindle, has been tipped off about an Inspector from the capital. The provincials paddling in the peat bogs decide that a new stranger in town must be their man: "He's *incognito*" – "No he's not, he's in the hotel." The bemused stranger catches on and milks a situation where the burghers feel obliged to laugh at his jokes and ply him with bribes of sex and money. This faux-inspector's servant is convinced that Swift's *Modest Proposal* has been written into the local bye-laws and that he is living amongst cannibals. Any mention of beef sends him raving.

The harsh Irish accents make Gogol's jokes sound starkly aggressive instead of lightly cynical. At the moment, everything is overdone; the squeamish provincialism James Joyce found even in Dublin is flogged to death. The actors try too hard, shout too much, and need to tone down.

But there are some delights: Dan Gordon's playing of the faux-Inspector, and Eileen Pollock's (the Mayor's wife) sex-crazed delight at his arrival in her house; Mark Lambert as the troubled Mayor is a chaotic presence, oscillating between civic propriety and old-fashioned grovelling. Next time the Inspector should be a Brussels functionary or GATT investigator. Pam Brighton directs.

The Tricycle Theatre (071 328 1000) until March 5

Sponsorship/Antony Thorncroft

Quest for a benefactor

Perhaps the most distressing consequence of the Arts Council's debacle over the funding of the London orchestras was not the waste of the orchestras' time and money, but the cloud that the exercise cast over their quest for sponsorship for the 1994-95 season. With the Council apparently intent on dropping two internationally acclaimed bands from its client list, few potential business supporters were willing to show an interest.

The LPO, the RPO and the Philharmonia, which, in the event were all reprieved and given roughly the previous year's subsidy, are now battling hard to make up for lost time, but it would be surprising if sponsorship revenue next season matches 1993-94.

Traditionally, the orchestras enjoyed sponsorship income which often exceeded 10 per cent of revenue and, in some cases, outpaced Arts Council subsidy. But London is oversupplied with symphony concerts and sponsors are aware of falling audiences. They are looking for something "fresh" and "original" from classical music.

So the orchestras are trying to devise packages for sponsors – "seasons", "festivals", or links which give the sponsor more prominence. Typical is BMW's backing for the English Concert Orchestra to play a "mystery piece" at each concert. The regular attender who correctly guesses the most composers and their works during the season receives a substantial prize. Last Monday night conductor Raymond Leppard was talking about the competition from the rostrum, driving the BMW name home.

Fortunately there is one area where orchestras offer sponsors a service not equalled by theatre or dance companies – international touring. Virtually every major overseas orchestral tour is now sponsored. As well as a guaranteed fee, the orchestra meets a new audience; flys the flag; and sponsors can entertain foreign contacts and wrap the prestige of an acclaimed British orchestra around their products.

This week in Vienna the LSO signed its largest ever sponsorship deal, with Takeda, the leading drugs and chemicals company in Japan. Worth in excess of £500,000, it is taking the LSO around Austria and Germany; to the Salzburg Festival in August; and to the US and Japan in 1995. This is the third worldwide sponsorship between the LSO and Takeda.

The key to the relationship is Hiroaki Yamataka, who heads the Japanese wing of Kleinwort Benson in London and is an international vice-president of the LSO. He arranged the initial contact in 1986, and is proof of how important it is for leading arts organisations to appoint influential members to their boards.

Katsura Morita, chairman of Takeda, says that Japanese companies are keeping faith with the arts companies they sponsor during the Japanese recession. This is one of the advantages of working in a culture where losing face is a grievous failing.

Takeda's support for the LSO stems from its belief that music can make the mind healthy. It is also alive to the advantage of using the LSO to accompany it into new overseas markets.

★

Thanks to sponsorship, art has a new prize to set against the Turner. The criticism that the Turner Prize is only awarded to "cutting edge" artists, practitioners in abstract sculpture or conceptual art rather than to painters, has taken substantial shape in the form of the Jerwood Painting Prize. It is worth £30,000, making it the most valuable art award in the country. The inclusion of the unfashionable word "painting" in the title confirms that it will go to an artist who is still working in a figurative way.

The funding comes from the Jerwood Foundation, set up by the late John Jerwood who made his money from the Japanese pearl industry. Five British artists will be shortlisted on the basis of their recent work, and their paintings will be on show at the Royal Scottish Academy during the Edinburgh Festival and at the Royal Academy in London in September. The winner will be announced then. A painting by the winner will be bought and loaned to a public museum or gallery in the UK.

Orchestras are trying to devise packages for sponsors – seasons, "festivals", or links to give sponsor prominence

The Jerwood Foundation's traditional concerns were limited to youth and music, but it has widened its interests and gives more than £500,000 a year to the arts. Among its beneficiaries are the National Youth Chamber Orchestra, the National Art Collections Fund Awards, and the Bush Theatre in London.

★

BT has re-asserted its position as the UK's leading corporate sponsor of the arts. It has donated £500,000, over three years, to the Association of British Orchestras, which will mastermind the commissioning and the performance of a new orchestral work.

James MacMillan will compose the first piece which will be successively performed by 12 leading orchestras. The premiere will be at the Barbican on September 21 and feature the LSO.

The next generation will be helped by a £60,000 BT sponsorship for London's young musicians. The money will enable gifted young people to study at the Centre for Young Musicians at Morley College. This does not affect the £60,000 a year that London Electricity provides for the London Symphony Schools Orchestra, produced by the Centre.

★

Panasonic Europe is to continue as exclusive sponsor of the European Community Baroque Orchestra, supporting young musicians with £335,000 over the next three years.

★

Thorn EMI has given £30,000 towards a recording studio at the Royal Academy of Music. It will be used in the Academy's full-time commercial music course.

INTERNATIONAL ARTS GUIDE

■ BERLIN

OPERA/DANCE

Staatsoper unter den Linden Two Gluck operas - Alceste and Iphigénie en Tauride - can be seen in tandem over the next two weeks, in new French-language productions staged by Achim Freyer and conducted by Martin Hengelbrock. Casts are headed by Anna Caterina Anatonacci (Alceste), Carola Höhn (Iphigénie), Gino Quilico (Orest) and Keith Lewis (Pylades). Repertory also includes Der fliegende Holländer with Mara Zampieri singing her first Senta (Feb 11, 18, 21, 24, 27) and Jenufa with Gabriela Benackova (200 4762/2035 4494)

Deutsche Oper This month sees the revival of Aribert Reimann's 1992 Kafka opera Das Schloss, with Wolfgang Schöne as K. The composer talks about his work tonight, and there are performances tomorrow, Feb 22 and 26. Gwyneth Jones sings her 100th performance as Elektra on Sun. Repertory includes Tosca, Macbeth and an evening of John Neumeier choreographies (341 0249)

CONCERTS

Schauspielhaus Günther Herbig conducts Berlin Symphony Orchestra on Thurs, Fri and Sat, with violin soloist Miriam Fried. The programme includes works by Prokofiev, Bruch and Tchaikovsky (2090 2156)

Philharmonie Claudio Abbado opens the Berlin Philharmonic Orchestra's Faust cycle on Sat and Sun with performances of Mahler's Eighth Symphony. Soloists include Cheryl Studer, Anne Sofie von Otter, Bryn Terfel and Peter Seiffert (2548 8132)

■ NEW YORK

THEATRE

● Angels in America: Tony Kushner's epic two-part drama - about religion, sex, Aids and corrupt politics - conjures a vision of America at the edge of disaster. Part one is Millenium Approaches, part two Perestroika, played on separate evenings (Walter Kerr, 219 West 48th St, 239 6200)

● Four Dogs and a Bone: John Patrick Shanley's comedy about movie-making and power plays in Hollywood was one of off-Broadway's biggest hits last autumn (Lucille Lortel, 121 Christopher St, 239 6200)

● No Man's Land: Christopher Plummer and Jason Robards in Harold Pinter's 1975 drama about two poets who exchange bitter views in a well-ordered but hostile home. Directed by David Jones (Roundabout, Broadway at 45th St, 869 8400)

● Laughter on the 23rd Floor: Neil Simon's 27th Broadway play, about a group of comedy writers in the early days of live television. Directed by Jerry Zaks (Richard Rodgers, 226 West 46th St, 307 4100)

● Those The River Keeps: a drama, written and directed by David Rabe, about a man's struggle with his violent past and a new life with his young wife (Promenade, 2162 Broadway at 76th St, 239 6200)

● The Brothers Karamazov: Dostoyevsky's drama, adapted and directed by David Fishelson, about three brothers who have been separated since childhood and the mystery of who killed their father. In repertory with Shaw's Heartbreak House (Bouwerie Lane, 330 Bowery at Bond/Second Streets, 677 0060)

● Hello Again: a musical by Michael John LaChiusa about 10 people in different decades of this century who are searching for their ideal lovers. Directed and choreographed by Graciela Daniele (Mitzi E. Newhouse, 150 West 65th St, 239 6200)

OPERA/DANCE

Metropolitan Opera The main event this week is the premiere tonight of Colin Graham's new production of Death in Venice conducted by David Atherton, with a cast headed by Anthony Rolfe Johnson and Thomas Allen (in repertory till Feb 26). Tomorrow, Sat: Aida with Sharon Sweet and Fabio Armiliato. Wed, Sat afternoon: Le nozze di Figaro with Renée Fleming, Marie McLaughlin, Susanne Mentzer and James Morris (till Feb 24). Thurs: Lucia di Lammermoor with Mariella Devia. Next Mon: revival of La fille du régiment with Kathleen Battle. Feb 21: Kent Nagano conducts Dialogues des Carmélites (362 6000)

State Theater New York City Ballet presents the world premiere of Richard Tanner's A Schubert Sonata on Thurs (repeated Feb 12, 20, 26). Darcey Bussell appears as guest soloist in Balanchine's Agon and Symphony in C on Feb 9, 10, 12 and 16. The company's winter season runs daily except Mon till Feb 27, with matinee and evening performances on Sat and Sun (870 5570)

CONCERTS

Carnegie Hall Tonight: Edo de Waart conducts Minnesota Orchestra in works by Beethoven, Gabrieli and Rakhmaninov, with violin soloist Vadim Repin. Fri: Skitch Henderson and New York Pops. Feb 18: Seiji Ozawa conducts Boston Symphony Orchestra (247 7800)

Avery Fisher Hall Tomorrow: Kurt Masur conducts New York Philharmonic Orchestra in works by Beethoven and Shostakovich. Thurs: Masur conducts world premiere of Schnittke's Eighth Symphony (repeated Sat and next Tues). Fri: Keith Jarrett. Sun afternoon: Mirella Freni and Nicolai Ghiaurov with orchestra of St Luke's. Feb 20, 21: Yevgeny Svetlanov conducts Russian State Symphony Orchestra (875 5030)

Alice Tully Hall Wed: Benita Valente is soprano soloist with Guarneri Quartet. Thurs: concert performance of Donizetti's La Favorite. Feb 16: Marilyn Horne. Feb 20, 22: Josef Suk (721 6500)

■ PARIS

OPERA/DANCE

Opéra Comique Robert Carsen's acclaimed Aix production of Britten's A Midsummer Night's Dream opens tonight for six performances conducted by Steuart Bedford, with a cast headed by James Bowman and Lillian Watson (4286 8883)

Théâtre des Champs-Elysées Handel's Orlando, staged by Robert Carsen and conducted by William Christie, can be seen tonight, Wed and Fri, with a cast headed by Patricia Bardon and Lynne Dawson. Feb 15: concert performance of Otello (4952 5050)

Opéra Bastille Repertory for the next month consists of a new production of Salome and a revival of Bob Wilson's staging of Die Zauberflöte. The Strauss is conducted by Myung-Whun Chung and directed by André Engel, with a cast headed by Karen Huffstodt, Leonie Rysanek and Monte Pederson (next performance on Sat). The Mozart production, starring Manfred Hemm, Laurence Dale and Manfred Schenk, runs from Feb 16 to March 13. Members of the Opéra orchestra give a chamber music programme on Wed (4473 1300)

Palais Garnier Ballet de l'Opéra de Paris on Wed begins a three-week run of Nijinski triple bill: Petrushka (Fokine, 1911), Till Eulenspiegel (Nijinski, 1916) and Le Sacre du Printemps (Nijinski, 1913). The production is conducted by Myung-Whun Chung (4742 5371)

CONCERTS

Théâtre des Champs-Elysées Tomorrow: Alban Berg Quartet. Thurs: Charles Dutoit conducts Orchestre National de France in works by Debussy, Chausson, Dukas and others, with soprano Carol Vaness. Sun morning: Boris Pergamenshikov and François-René Duchable play cello sonatas. Next Mon: Simon Rattle conducts Orchestra of Age of Enlightenment (4952 5050)

Salle Pleyel Wed and Thurs: Semyon Bychkov conducts Orchestre de Paris in the Fifth Symphonies of Beethoven and Shostakovich (4561 0630)

JAZZ/CABARET

American saxophonist Steve Grossman heads the bill this week and next at Lionel Hampton Jazz Club (Hotel Meridien Paris Etoile, 81 Boulevard Gouvion St Cyr, tel 4068 3042)

THEATRE

● Le Cid: Francis Huster directs and stars in Corneille's classical masterwork. Till Sun at Marigny, Carré Marigny (4256 0441)

● The Homecoming: a powerful new production of Harold Pinter's menacing drama (1965), directed by Bernard Murat at the Atelier, Place Charles-Dullin (4606 4924)

● The Rise and Fall of Arturo Ui, Brecht's Nazi allegory, is directed by Jérôme Savary at Théâtre National de Chaillot, with Guy Bedos in the title role. Daily except Mon till Feb 26 (4505 1450)

● Children of the Sun, Maxim Gorki's pre-revolutionary drama (1905), is directed by Lluis Pasqual at Odeon-Théâtre de l'Europe. Daily except Mon till Feb 27 (4441 3636)

ARTS GUIDE

Monday: Berlin, New York and Paris.
Tuesday: Austria, Belgium, Netherlands, Switzerland, Chicago, Washington.
Wednesday: France, Germany, Scandinavia.
Thursday: Italy, Spain, Athens, London, Prague.
Friday: Exhibitions Guide.

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Super Channel: FT Reports 1230.
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Super Channel: FT Reports 1230
THURSDAY
Super Channel: FT Reports 2130
Euronews 0745, 1315, 1545, 1845
FRIDAY
Super Channel: FT Reports 1230
Sky News: FT Reports 2030
SATURDAY
Sky News: 0330; 1330
SUNDAY
Super Channel: FT Reports 2230
Sky News: FT Reports 1730; 0430

A Clinton Fed might hesitate

MICHAEL PROWSE on AMERICA

The Federal Reserve acted responsibly on Friday. This was about the last moment it could have begun tightening without jeopardising its credibility on inflation. Its decision was justified even if share prices plunge further this week. Equity markets were frothy partly because the Fed had delayed an inevitable tightening move for so long. Had it waited until March or April, equities would probably have climbed higher, and any correction would have been more violent.

Yet while congratulating the Fed, we should remember that Mr Alan Greenspan, the Fed chairman, was appointed by former President Ronald Reagan. In a capital run by Democrats, the Fed is one of the last bastions of Republican power: all of Mr Greenspan's fellow governors are either Reagan or Bush appointees. The regional presidents who control a minority of votes on the policy-making Federal Open Market Committee have a more diverse political background, but as they are selected by local business interests, they tend to be conservatives.

It is largely because the Fed – still the anchor of the world's monetary system – has enjoyed strong leadership for so long that Democrats can now blithely dismiss fears of higher inflation. Indeed, had Mr Greenspan not sought to reduce the 5 per cent inflation rate he inherited from Paul Volcker in the late 1980s, the US would probably not today be within striking distance of genuine price stability – meaning inflation so low that it can be ignored for all practical purposes. Whether the US succeeds in permanently kicking the inflation habit now depends on Bill Clinton.

Last month the White House signalled that Mr George Perry, an economist at the Brookings Institution, was likely to succeed Mr Wayne Angell, an "inflation hawk" whose term as a Fed governor has just expired. But Mr Perry has still not been formally nominated because lawyers are investigating a possible conflict of interest – Mr Perry's wife manages several large investment funds. Following the surprise resignation last week of Mr David Mullins, Mr Greenspan's able deputy, Mr Clinton must now fill a second vacancy on the Fed's seven-member board.

These appointments are important. They could significantly alter the balance of power within the Fed. But they are nothing like as important as a question that, so far, has received surprisingly little attention: who will replace Mr Greenspan?

Fed chairmen serve four-year terms (concurrently with their 14-year governorships). Mr Greenspan's second four-year term expires in March 1996. He will then be 70 and would be unlikely to seek a third term. In any case, Mr Clinton will want to put his stamp on the Fed by appointing a Democrat to the top job. In theory Mr Clinton need not worry yet about replacing Mr Greenspan, but as he fills the two slots already open, it would be natural to groom somebody for the chairmanship. Indeed, the White House may regard Mr Perry as a suitable successor, not just to Mr Mullins but to Mr Greenspan.

Messrs Angell and Mullins are departing. Mr Greenspan will go in two years. It would not be surprising if Mr Larry Lindsey, a conservative Bush appointee, went soon. This means that an era of stability, during which the Fed has been run by a team of committed inflation fighters, could be ending. Within a couple of years Clinton appointees will probably dominate the central bank. Regional presidents may not put up much fight because congressional committees are already threatening to clip their wings, either by making them White House appointees or by cancelling their right to vote on interest rate policy.

On Friday, far from bashing the Fed, Mr Lloyd Bentsen, Treasury secretary, emphasised the importance of its remaining independent. Neither he nor Mr Clinton's other senior economic advisers would regard themselves as "soft" on inflation. So as they flip through CVs, can we relax confident in the knowledge that a Clinton Fed would act responsibly? Regrettably, I think not.

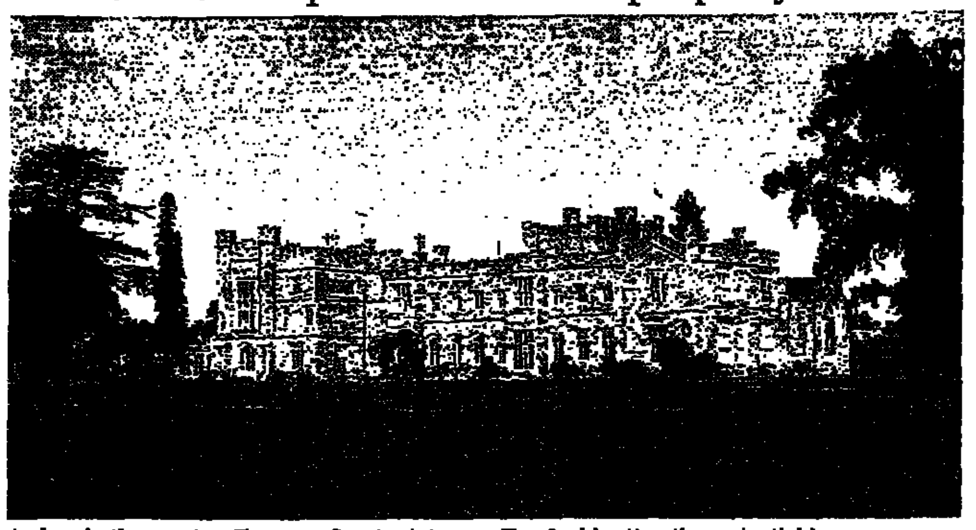
The problem is not that Mr Clinton will appoint lunatics or people obviously incompetent, but that the type of person he favours will be just a shade more complacent about inflation than the Greenspan team. And even a little complacency can lead to serious financial instability – and eventually a wrenching recession. Think of Britain's problems in the late 1980s or those of the Fed in the 1970s under Arthur Burns and G. William Miller.

Mr Perry, for example, is a respected economist. But his credentials as an inflation fighter may not wholly satisfy financial markets. In a recent article Mr Perry agreed with the old adage that a central bank must take away the punch bowl just as the party gets lively. But not, he quipped, "just when the guests are arriving". This notion that the recovery has not really got going, even though national income has been growing for nearly three years, is characteristic of many Democratic-leaning economists.

I suspect most Clinton administration officials believe inflation of 5 per cent, or preferably a bit less, is perfectly acceptable. At a Jackson Hole monetary conference in 1992, Mr Larry Summers, now undersecretary at the Treasury and a possible future candidate for the Fed chairmanship, argued that "austerity encounters diminishing returns". He implied that Mr Greenspan's avowed goal of stable prices made little sense, because the cost of achieving zero inflation in terms of lost jobs and output exceeded the benefits – which were highly dubious. We can assume this will be the attitude of the next Fed chairman, whomever he or she may be.

In search of the ultimate des-res

Vanessa Houlder on the revival of interest and sales in the top tier of the UK property market



A place in the country: Hampton Court estate near Hereford is attracting potential buyers

A 15th-century castle, set among the wooded countryside north of Hereford, near the Welsh border, is proving a bell-wether of sentiment among Britain's wealthiest property buyers.

Built in 1427 by Sir Rowland Lenthall, who was knighted for gallantry at the battle of Agincourt, the Hampton Court estate boasts 1,000 acres of land, including a Grade I listed castle – with 30 bedrooms, a ballroom, private chapel and banqueting hall – plus a pheasant shoot, deer stalking, trout fishing, a farm house and seven workers' cottages.

Even allowing for the hyperbole of the property world, the estate inspires superlatives. It is "the pinnacle of the property ladder, the epitome of the country house", according to its agent, Mr Tony Morris-Eyton, of Knight Frank & Rutley.

For the past three years, the house has been a poignant reminder of the collapse in demand for grand country mansions. In 1987, James Folkes, director of a Birmingham engineering company, and his wife Xenia bought it for £1.65m. Three years later, having decided, according to their agent, to move closer to his business, they put it on the market for £5m. There was no buyer.

But when they put it back on the market just before Christmas, with the price slashed to £2m, the response was overwhelming: more than 60 potential purchasers have arranged to view the property in the past six weeks.

The flurry of interest has yet to be translated into a sale. But it adds to a widespread impression that the revival of the British economy, the buoyancy of the UK stock market and lower interest rates are restoring confidence in the top tier of the property market.

Agents report a marked upturn in demand for expensive properties – although usually with the caveat that they have to be the ultimate des-res, unspoilt and free of noise pollution. "Since Christmas, we have had a huge surge in the number of potential buyers," says Mr Alexander Hunt from the London office of estate agents Strutt & Parker.

The first signs of revival were evident in 1993, when at least 10 estates worth more than £1.75m each were sold, more than double the number sold in 1992. Deals included the purchase for £12m of the 20,000-acre Tulchan estate in Morayshire, Scotland, by Mr Leon Litchfield, owner of a Midlands-based plastics business; the sale of the £11m Druids Lodge estate in Wiltshire, and the £4.25m Fosbury Manor estate, also in Wiltshire, to members of the Guinness family; and the purchase of the Pickenham Hall estate in Norfolk, which includes most of the village of South Pickenham, for £8m by a German businessman.

The pace now appears to be quickening. Already this year the Corby Castle estate in Cumbria, which had been in the Howard family for nearly 400 years, has been sold for £2m to an Irish-based businessman. A sale has also been agreed on the 1,000-acre Braishfield Manor estate in Hampshire, for which the owners were asking between £3.25m and £4.25m.

Although reliable figures are not available, demand for such properties still seems a long way short of the heady levels of the late 1980s. Then, sales were fuelled by rising incomes, easy access to loan finance and the new-found wealth of a number of businessmen whose companies had been floated on the stock market.

Estate agents report a change in buyers' priorities since then. More consideration is being given to the practicalities – and expense – of running a large country estate. Properties in better condition or with relatively low maintenance and staffing costs are more likely to be sold. "A lot of people bought very big, unmanageable houses for the status at the end of the 1980s. Now there is a bit of resistance to very big houses that are expensive to maintain," says Mr John Husband of Humberts estate agents.

Underpinning the current activity at the highest reaches of the property market, however, is a continuing supply of wealthy people still attracted by the prestige and sporting pleasures associated with owning a country estate.

A lack of sellers rather than a lack of buyers affects the top end of the residential market

A further attraction is the tax advantages of investing in farmland. Capital gains from the sale of a business can be rolled over into buying an estate or farm. Since 1992, investment in land farmed by the owner for at least two years can be passed on free of inheritance tax. For overseas buyers, particularly from continental Europe, advantageous exchange rates and the UK's perceived economic and political stability are additional incentives.

Indeed, the main problem for this end of the property market appears to be less a lack of buyers than a lack of sellers. The steep fall in property values has largely confined the ranks of would-be sellers to those forced to sell because of debt, death or divorce. Most estate agents estimate that, on average, prices of country estates have fallen about 40 per cent in the early 1990s.

Death is becoming a less frequent cause of property sales, as a result of the change in inheritance tax rules in 1992. Financial difficulties, in contrast, have become an increasingly common reason for sales. Losses incurred by some Lloyd's Names, individuals whose assets support the insurance market, have, together with crippling estate repair bills and declining farm incomes, influenced the top end of the market. But the effect of setbacks at Lloyd's may be exaggerated. "As a firm we have been staggered by how few Lloyd's losses have been converted into [house] sales," says Mr Hunt of Strutt & Parker.

Compared with other residential properties, the market for country estates is more prone to sharp fluctuations. And there has been a number of high-profile property victims. In 1992, for instance, Brympton d'Evercy, a Tudor mansion in Somerset, was sold for just £850,000; and Pitchford Hall, an Elizabethan house near Shrewsbury, Shropshire, went for £1m. These low prices underlined the pressures on Britain's landowning families.

The indications are, however, that if the recovery in the top end of the housing market is sustained, a number of prestige properties would come on to the market and go some way towards meeting demand. The Historic Houses Association, an association of country house owners, says that many families, who have held estates for centuries, are battling to keep possession of their properties. "A great many people have made all the sacrifices they can," says Mr Terence Empson, HHA director-general.

The association fears that the new buyers will displace what the late Lord Ridley, the former environment secretary, described as the *anciens pauvres* and fail to maintain the properties as family homes. "It never was the case that the *nouveaux riches* were rushing to buy properties as family homes," says Mr Empson.

In the past, many an entrepreneur has bought an estate with the intention of, for instance, turning the house into a hotel and the grounds into a golf course – as did Asil Nadir, the disgraced businessman, with Burley House, a Palladian mansion in Leicestershire, bought for £7m in 1990. But some such schemes were abandoned when recession began to take hold, and houses and grounds have been neglected. Of the 480 family seats sold over the past 20 years, at least 105 have already been resold, and further broken up in the process, according to the association.

Nevertheless, the recent improvement in demand for estates suggests that individuals are returning to the market in significant numbers. It may be years before the values of large country houses return to the heights of the late 1980s, but it seems that the life of a pheasant-shooting country squire is beginning to attract the property buyer once again.

LETTERS TO THE EDITOR

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Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution

Rover: symptom of a questionable trend

From Dr J. Hamill.

Sir, BMW's takeover of Rover has again raised the question of foreign acquisitions of UK companies. Since 1988, foreign companies have made a total of 986 acquisitions in the UK valued at about £50bn. Such acquisitions account for almost half of the total value of all cross-border acquisitions in the European Union in recent years. The list of British companies externally acquired includes Beecham, Midland Bank, Rowntree, Jaguar, STS, Pearl Group, Yorkshire Bank, Metal Box Packaging and RTZ Chemicals. Equally important, a large number of small and medium-sized British companies has been externally acquired.

While "green-field" foreign direct investment in the UK has generally been welcomed for its positive effects on the British economy, the economic impact of inward acquisitions is less clear. A recent study by SIBU examined post-acquisition change in a sample of 73 British companies externally acquired since 1985. The study highlighted a mix of both positive and negative effects of external acquisitions. Positive effects included increased capital and R&D expenditure post-acquisition, the transfer of innovative management practices and increased exports. The most significant negative effects included substantial employment losses as a result of post-acquisition rationalisation and integration, and the transfer of decision-making out of the UK.

There were significant variations in the impact of acquisition by nationality of acquirer. Generally, UK acquisitions by non-EU companies have had a more favourable (less negative) effect than acquisitions by EU-based firms. These differences were related to the initial motivations behind the acquisition.

For non-EU based companies, UK acquisitions have acted as an important channel for establishing market share in the single market. Such acquisitions driven by product/market expansion have positive effects if the UK operation is given an important role to play in the overall global/regional strategy of the new parent company. This is less likely in the case of UK acquisitions by EU-based companies which are more cost-efficiency driven. Such deals will be accompanied by post-acquisition rationalisation and big job losses.

The UK government has adopted a *laisser-faire* approach to foreign takeovers of British companies. Given the scale of the phenomenon and evidence of negative impact, this liberal approach should now be questioned.

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Airline aid proposal realistic

From R. Colegate.

Sir, In your editorial, "Mostly wise on open skies" (February 2), you criticise the recommendation of the committee of wise men that one last round of state aid should be permitted in the context of restructuring plans that promise to make state-owned airlines viable within a strictly limited time.

Whether or not this recommendation is wise or fair, it is surely realistic. The situation is in many ways analogous to the reconstruction of a public company in administration. BA could not have been privatised had the British government not guaranteed its finances in 1982.

The problem now is that privatisation cannot be made a condition for approving a final injection of state aid to an ailing flag carrier. Nothing in the Treaty of Rome, which here faithfully reflects the thinking of the 1950s, would support an attempt by the Commission to issue guidelines limiting the approval of state aid in this way. One must hope that the market place will produce the desired result, as is already happening in Portugal and may yet happen in France.

R. Colegate,
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Human rights a precondition of trade

From Mr Neil Kearney.

Sir, You say in "China and the Gatt" (January 31) that the west cannot ignore gross violations of human rights in its relations with China, but that trade relations should focus only on the policies that affect trade. China's human rights abuses do affect trade.

The denial of freedom of association and the right to bargain collectively distorts the labour market. The use of children and millions of prisoners in export industries constitutes unfair competition which can hardly be portrayed as a "comparative advantage".

Apologists for China, particularly those European and US investors who have largely abandoned production in their own countries and are now fearful of import restrictions, argue that the best way to advance social change is through permitting foreign investors in the country to make even bigger profits. Some hope! US pressure over most-favoured-nation status proves the contrary. For the first time ever, the Chinese have indicated their willingness to discuss human rights. More, not less, pressure is needed. Was it not such pressure that restored democracy in central and eastern Europe?

The continuing arrests of worker activists for "counter-revolutionary activities" and the forcible internment of some in psychiatric institutions is an affront to humanity. China's application to join the General Agreement on Tariffs and Trade should be denied until it accepts international standards on human and worker rights. Trade with China should be strictly limited until it eliminates its inhuman abuse of its workforce.

Why must we kow-tow to multinationals making expensive toys and training shoes. In abysmal conditions often using workers as young as the children for which these products are intended in the west? World trade relations should focus on the social dimension. If they move in that direction, then China's economic policies will almost certainly become more market-oriented.

Neil Kearney,
general secretary,
International Textile, Garment & Leather Workers' Federation,
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Belgium

Ignore county councils' cries of self-interest

From Mr Dennis Benson.

Sir, We now have the bizarre spectacle of county councils mounting at public expense a massive last-ditch campaign to influence the local government review.

As someone who probably fits the media cliché "well known in local business circles", I am intrigued by any claim that there is widespread support for the retention of County Hall here in Lancashire. Most people view it as a tier too many, an unnecessary and extremely expensive bureaucracy. Even more importantly, it is inevitably remote from the various local communities, be they business or private sector.

If our county halls really believe their own propaganda, perhaps they would like to consider a referendum. My guess is that a vast majority of Lancastrians would demand devolution of power to a number of cost-conscious and accountable unitary authorities.

Here in Chorley our council sets an excellent example in good housekeeping and accessibility to the people. Sadly, many of the major services that affect everyone are outside its remit and are an ongoing frustration to one and all.

Oh that it were otherwise – and so says many a frustrated Lancastrian. If the government really believes in cost-effective local accountability, it should ignore the cries of self-interest echoing along vast county hall corridors.

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FINANCIAL TIMES

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Monday February 7 1994

Something must be done

Once again an atrocity, by crossing a new threshold of horror, has refocused the world's flagging attention on Bosnia, and in particular on Sarajevo. The Bosnian Serb militia has disclaimed responsibility, alleging that the Moslem-led Bosnian government deliberately staged a massacre of its own civilians to provoke outside military intervention against the Serbs. That strains credulity, and does not explain how the mortar-bomb apparently came to be fired from Serb-held territory.

The UN is investigating, but the overwhelming presumption must be that this was a further escalation, whether deliberate or accidental, of the pressure the Serbs have been applying relentlessly to the city since the war started nearly two years ago. As such, it is a very direct provocation to the UN, which is supposed to be protecting Sarajevo along with other "safe havens", and to Nato, which last August explicitly threatened air strikes "in the event that the strangulation of Sarajevo and other areas continues".

Lord Owen, the European Union mediator, has argued that the latest outrage makes it imperative to bring the city under UN administration. The problem, however, is not the city's administration but its defence. There can be no justification for removing it from the administration of the internationally recognised government, while leaving the surrounding area under the control of the Serb militia, which has been pounding it to death.

The issue is not solely or even primarily humanitarian. Indeed, the tendency to analyse the situation in the former Yugoslavia in purely humanitarian terms has perhaps been the biggest mistake that western governments have made throughout. Whereas in Kuwait and in the Falklands governments set aside narrowly humanitarian considerations, realising the disastrous consequences that would follow if aggression were allowed to succeed, in the former Yugoslavia they have responded to aggression with verbal condemnations and empty threats, while confining their action to a humanitarian effort which is at best a palliative, and at worst only prolongs the agony.

What is at stake is the credibility of the principles which were supposed to form the basis of a lasting peace in Europe, following the end of the cold war, and – perhaps even more serious – the credibility of the international organisations in which the peoples of Europe had vested their hopes of peace and security: Nato, EU, UN and the Conference on Security and Co-operation in Europe.

That being so, the worst thing to do now would be nothing, even if it can be plausibly argued that any given action (such as a punitive air strike against Serb positions) will in itself do little to improve the situation, and may in some respects make it worse. It is vital to restore some credibility, at least to Nato and the UN – the two organisations most concerned with military security – by demonstrating that their express orders cannot be defied with impunity.

But clearly an action that achieves some strategic advantage would be preferable, if one can be found. The one that suggests itself is the use of force to reopen the airport at Tuzla, through which the main part of the country still in government hands could be far more easily resupplied than by road.

The UN has been trying to achieve this by diplomacy since the autumn, and Nato at last month's summit explicitly linked its threat of air strikes to the opening of the airport, as well as relief of the UN garrison at Srebrenica. General Sir Michael Rose, the new UN commander in Bosnia, showed last week that he is prepared to risk confrontation with Serb forces if necessary. He should now be told to reopen Tuzla airport without further delay, and authorised to call on "close air support" from Nato as soon as anyone tries to stop him.

Greenspan's lead

Both in its timing and substance, Friday's announcement that the Federal Reserve has tightened US monetary policy was good news for the world economy. The strength of the recovery and historically low US rates meant some policy tightening was inevitable, although few expected the Fed to move so soon. But by combining an unusual public statement of intent with a modest quarter-point rise in short-term rates, Mr Alan Greenspan, the Federal Reserve chairman, appears simultaneously to have satisfied both the inflation-hawks and the White House, and boosted his already substantial reputation in the process.

Foresight in action combined with clarity of explanation are the twin keys to effective central banking. On both counts, Mr Greenspan's handling of the US recession and recovery has so far been exemplary. His willingness to cut rates aggressively as the scale of the US banks' debt difficulties became apparent now means that they are in a strong position to support recovery, unlike their Japanese counterparts. Raising short-term rates back towards their cyclical norm should reassure investors that inflation will not now be allowed to accelerate.

Whether the move will affect Europe's recovery will depend on how German and French central bankers respond. The recent D-Mark depreciation is one oft-cited reason why the Bundesbank remains reluctant to cut German rates further, despite the stagnant economy and falling inflation. The combination of a US recovery and higher interest rates could well mean a period of appreciation for the US dollar.

Yet to postpone rate cuts in case the D-Mark or French franc were to weaken further against the dollar would be to draw exactly the wrong conclusions from the Fed's success. Mr Greenspan has certainly not allowed US monetary policy to be derailed as he agonised over charts of almost certainly distorted and backward-looking monetary aggregates, or worried about short-term dollar weakness.

Instead, he has remained consistently focused on the underlying objective of monetary policy: to secure sustained growth with low and stable inflation and inflationary expectations.

If Mr Greenspan were the governor of the Bundesbank or the Bank of France, he would currently be doing nothing. The interest rate cuts that both economies still badly need would have been delivered some time ago.

EBRD's priorities

The last four years have demonstrated that establishing liberal capitalism in eastern Europe and the former Soviet Union will be a task with many interruptions. The fission of the Soviet empire has made the policy environment much more complex. It has exposed a sharp economic downturn, and a kaleidoscopic diversity of regional structures.

The European Bank for Reconstruction and Development was set up in 1991 to assist post-communist transformation. But on this unfamiliar terrain, it has seemed too cumbersome to play an effective role. Mr Jacques de Larosière, who took over last autumn following the resignation of Mr Jacques Attali, has recognised the bank's organisational shortcomings, and taken steps to remedy them.

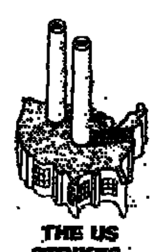
The latest move to increase EBRD staff in its offices outside London, following the operational streamlining announced in November, goes in the right direction. Deploying in the field sufficient numbers of high-grade employees with a talent for channelling the EBRD's funds and expertise towards potential customers is an obvious priority.

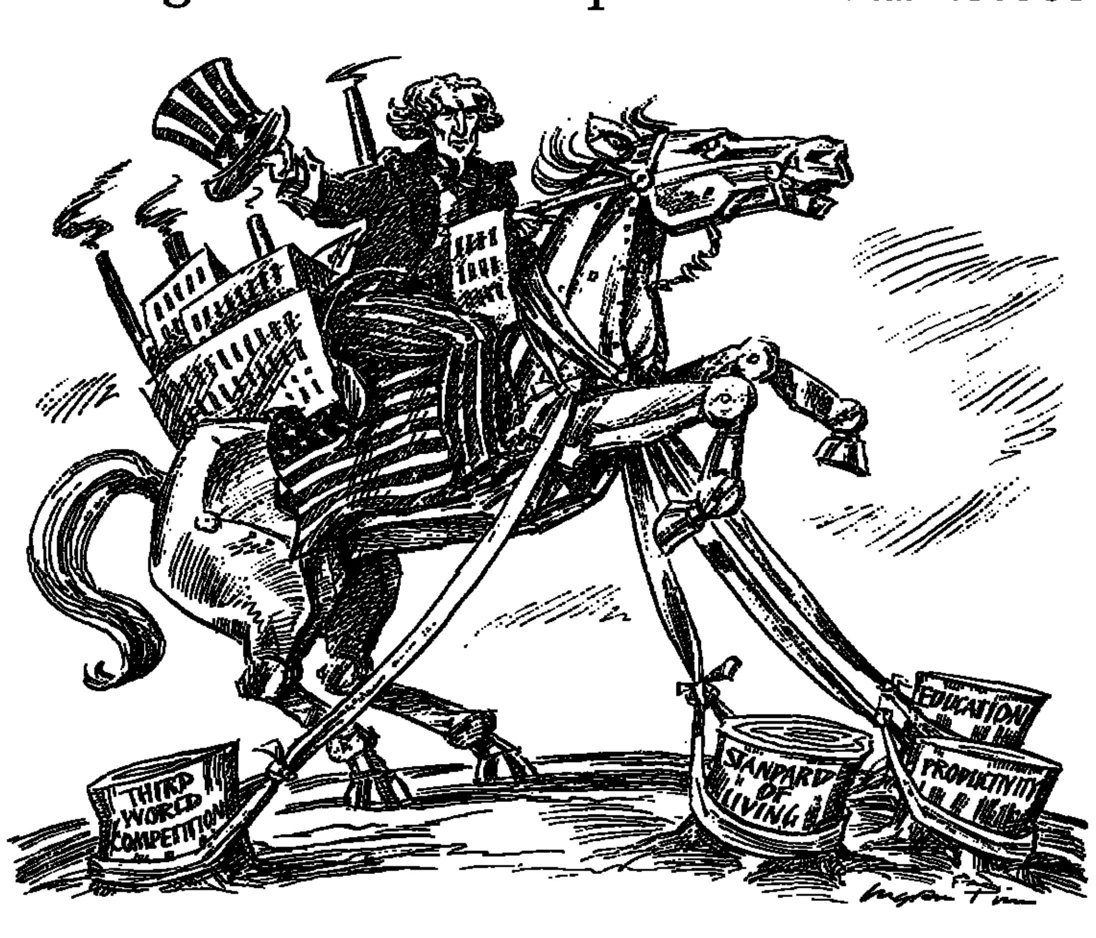
Hiring more young deal-makers with on-the-ground knowledge should allow the EBRD to compete more successfully with western merchant banks offering advice and loans to the private sector in former communist countries. At the very least, the EBRD's fees can be expected to be less than those of Wall Street and City rivals. More generally, decentralisation should allow the bank to gear its activities more closely to countries' varying needs.

At the helm of a bank with 56 public sector shareholders, Mr de Larosière must serve many masters. He cannot avoid dashing some expectations. The EBRD's purpose is neither philosophical nor charitable. It must offer its shareholders a return on its Ecu10bn of subscribed capital. The bank was widely criticised last year for slow disbursement of funds, and has since accelerated distribution of loans and equity. Yet the EBRD's recent request for compensation over its payment of $30m for a 20 per cent stake in the Czech national airline underlines how judgments can come unstuck. The EBRD's start-up activities may lead to a greater degree of write-offs than revealed hitherto. Up to now, Mr de Larosière's approach has shown the right mix of flair and commonsense. To assure the bank's future, he will also need, during the next few years, to show results.

Once more unto the breach

In the first in a series, FT writers ask if the new confidence of US industrialists is hiding America's competitive weaknesses





Just three years ago, something seemed fundamentally wrong with the industrial heart of the US. Vital markets such as cars and electronics were being lost to the Japanese. Auto industry chiefs trooped over to Tokyo to complain. Tariffs were slapped on Japanese imports of semiconductors. The popular novelist Michael Crichton wrote a best-seller, *Rising Sun*, portraying the US as the supine victim of a business massacre.

But if business is war, the Americans now seem to be winning it. The Detroit carmakers have made a comeback. The world of high-tech electronics is dominated by US companies such as Intel and Microsoft. Japanese industry is in trouble back home. After a nasty period of doubt, America's self-image is intact.

The obvious question asserts itself. The US was wrong to be so pessimistic before. Is it overdoing the optimism now?

The answer depends a good deal on who you talk to. The big manufacturers are mostly convinced the change is real. The 1980s, they say, were Japan's decade. Japanese manufacturers enjoyed a booming and largely protected domestic market, virtually interest-free finance and long product cycles that favoured large volumes and aggressive pricing. Now Japanese markets are static or shrinking. The collapse of the Tokyo stock market means the cost of capital in Japan is about the same as elsewhere. At the same time, international pressure has forced Japan to open its markets to more foreign competition.

Also, say US industrialists, Japanese corporations tend to be culturally rigid and structurally monolithic. This makes them very powerful when moving along predictable paths. But in the fast-moving world of the 1990s, products and technologies are changing much more swiftly than before. This favours the American genius for improvisation rather than the Japanese juggernaut.

Take the Japanese system of consensus management, whereby everyone has to agree to a decision before it is acted on. Mr Ed Zschau, president of IBM's storage products division, says: "That system works really well when you have a long life cycle for products. But when you have a very short, fast cycle, you have to give more responsibility to individuals."

Above all, Japan's strength lay historically in two crucial disciplines: quality of product, and efficiency in manufacturing. Now, the argument runs, America has caught up. Mr Harvey Jones, head of Synopsys, a Californian software company, says: "The Japanese were a source of the idea that quality is a measurement of value. We spent 20 years marvelling at that, and saying that if we didn't adopt it we would be consumed by it. In the end, people realised you either had to buy into the quality revolution or die."

US companies seem to have chosen the former option. Mr John Young, lately retired as head of Hewlett-Packard and an adviser on competitiveness to President Clinton, says: "I give US manufacturers pretty high marks since the mid-1980s for getting to grips with their problems. If you took a tour of factories today, you would find the ideas of total quality management and process re-engineering have become deeply embedded and well executed in a very broad range of companies."

The US, it appears, has learnt Japan's secrets. To get back in the game, Japan needs to learn the kind of creative skills traditionally associated with the US, and Silicon Valley in particular. "The Japanese have seen the religion of creativity, just as we've seen the religion of total quality management," says Mr Jones. "But the cultural factors inhibiting them are much more powerful. Total quality management is a mechanical process. You have to understand it, engineer it and instil it in your organisation, and none of that is trivial. But it's not rocket science. Creative thinking is much more deep-seated."

If US industry seems convinced that the future is rosy, US economists are a good deal less sure. Competitiveness, they say, is only a means to an end: raising the population's standard of living. America may have improved its performance in external markets, but the fact remains that real incomes have been static for the past 20 years. The chief reason for that is poor productivity growth, averaging less than 1 per cent a year over the same period. There has been a big revival in manufacturing productivity in the past few years. Productivity in the service sector, however, seems scarcely to have grown, even if in absolute terms it remains higher than in Europe or Japan.

The obvious question asserts itself. America was wrong to be so pessimistic before. Is it overdoing the optimism now?

Besides, manufactured goods account for only some 20 per cent of the US economy. Only 40 per cent of those manufactures are traded internationally. In other words, goods competing in world markets make up less than a tenth of the economy.

There is also the question of how these gains in manufacturing productivity have been achieved. Mr Fred Bergsten, head of the government-backed Competitiveness Policy Council, says productivity growth in manufacturing has been improving for six or seven years now. "But a lot of that is through down-sizing and lay-offs. That is not a satisfactory outcome for the economy. It's essential, and I'm not knocking it, but it's not enough. You also need economic growth if you're going to create jobs."

Mr Stephen Roche, of the Wall Street investment house Morgan Stanley, goes further. US industry, he says, has adopted a "slash and burn" mentality. "I believe we're getting overly fixated on cost-cutting as a means of boosting short-term gains," he says. "The gratification for shareholders is swift, but if you get hooked on cutting, you hollow out your ability to compete in the long term. I worry that when the world recovers and the party is held, we may not have enough people to party."

The argument is hotly disputed by some industrialists. It assumes, they say, that productivity improvement is a finite process. In fact, there has been a revolution in US work practices – particularly among large companies – which makes the scope for improvement practically limitless. Above all, they say, the trick is to involve the entire workforce, from the worker on the shop floor to the production director, in thinking up ways to improve effectiveness.

Mr William Marx, head of manufacturing at the telecommunications giant AT&T, says: "One of the real differentiators is whether you can get your employees engaged. We've worked awfully hard on that at AT&T, and it's a real source of competitive advantage."

On one point, industrialists and economists are united. International competition means Japan – and thereafter emerging nations such as Korea, Taiwan and above all China – but not Europe. Industry in Europe is universally dismissed as idle, hidebound and trapped in an old-fashioned system of social support. Those industrialists who follow European affairs regard with astonishment such recent events as Air France's capitulation to its unions or Volkswagen's move to part-time working.

On the other hand, they are careful to give Japan its due. Indeed, having been convicted of complacency in the 1970s and early 1980s – and having been badly scared as a result – they now seem almost superstitious in their eagerness to praise their opponents. Mr Jack Welch, chairman of General Electric, says: "We are students of Japan here in GE. We think they're marvellous, marvellous industrialists. We like their new product development, we like their speed, we like their quality focus. I put them at the pinnacle, and we're working every day to learn everything we can from them."

Mr James Cannavino, IBM's senior vice-president for strategy and development, says: "They're relentless. Relentless. If you tell them the mountain is this high, and they have to run up it, they run up it. If you say, 'I'm sorry, but it's 10 times the height', they don't say 'hey, that wasn't the deal' – they run up that too."

The price of competitiveness may be the lowering of expectations, not only for wages but for hours and conditions

This attitude may prove not merely healthy but essential. In some areas, the US advantage may prove temporary, based on nothing more fundamental than the cyclical weakness of the Japanese economy and the strength of the yen. In the auto industry, for instance, there is an uneasy awareness that the long-term growth market is probably not the US or Europe, but the Asia-Pacific region. "If that turns out to be true," says Mr Wayne Booker, Ford's head of international operations, "the Japanese are sitting in the catbird seat."

Autos apart, the US is being inexorably drawn into the world arena by the growth of world trade. Mr Bergsten says: "If you look at exports plus imports in goods and services, that's now equivalent to 25 per cent of America's gross national product. That's identical to Japan and the EC. In the past 20 years that ratio has doubled for us, whereas for Europe and Japan it hasn't changed. The US has joined the world, and now has to worry much more about the international dimension of its economic performance."

In any case, Mr Bergsten argues, competitiveness is not merely a matter of the trade balance. "You have to look at productivity, the national standard of living, the fundamental stuff that makes up the domestic economy. That doesn't look so good."

Thus, the critics repeat, productivity growth for the whole economy is still unsatisfactory. In addition, investment as a proportion of GNP is still very low. So are savings. And – a recurrent theme among the doubters – the average real wage in America is at least 10 per cent lower than it was 20 years ago. The picture is less bad if non-wage benefits are included. Even so, total compensation over 20 years seems to have been broadly static.

Another vital component of competitiveness is human capital, or the quality of education. The worry here is not the American universities, which have a deservedly high reputation. "We have this terrific higher education system," Mr Bergsten says. "It's a big profit centre, a competitive part of America. We export $6bn worth of education services a year. But people forget that only one out of four Americans makes it through college" (that is, completes a degree).

The real problem, he argues, comes in the schools. "The statistical results of the American primary and secondary school system are unimproved from 30 years ago, and may be worse. They are lagging more and more behind every other country for which comparable data are compiled: not just industrial countries, but Hungary, Korea and some developing countries."

This raises another fundamental aspect of the competitiveness debate: how far will the US have to compete with the third world by settling for third-world living standards? Everyone you talk to in the US would reject this as unacceptable. But part of the problem is the very technology which the US has done so much to pioneer. In a world in which communications are bringing the true global corporation ever nearer, the threat to the US may come not from foreign competition, but from US companies moving their plants to eastern Europe or their software research to India.

Mr Daniel Burton, president of the Council on Competitiveness (an independent think-tank unrelated to the Competitiveness Policy Council), says: "The US can't run an economy on industries and services where you're not competing with third-world economies on some level. For the first time, a China or a Bangladesh can combine third-world wages with state-of-the-art technology. It's not that hard. The stuff's around, an investor picks it up and sticks a plant there. We have to compete with that."

The effects of all this on the American psychology are not easy to gauge. Again, it comes back to standard of living. The American tradition is based on the expectation of rising wealth. Large parts of the population are now faced with the reality of being poorer than their parents, or even their grandparents. The price of industrial competitiveness may thus be the lowering of expectations, not only for wages but for working hours and conditions. In the US, the lesson is proving painful. Europe, for the most part, has yet to confront it.

Mr Welch of GE puts the point bluntly: "The world's changing. People in the US and Europe aren't going to live the way they do 100 years from now unless they do a lot of things differently. Who says that because we have 240m people on this big piece of land we should have two cars and second homes, while 800m people in India and 1bn in China should live the way they live? We've only been wealthy in this country for 70 years. Who said we ought to have all this? Is it ordained?"

Reporting by Tony Jackson, Martin Dickson and Louise Kehoe

OBSERVER

Olympic's Dutch treat

■ When Roula Vlachopoulou took the job of joint managing director of Olympic Airways' catering business, little did she think that she would become the focus of attention of an international dispute which is embarrassing the Greek government's attempts to woo foreign investors.

Mrs Vlachopoulou is a close friend of Mrs Dimitra Papandreou, the socialist prime minister's wife, dating back to when they were both air stewardesses with Olympic, the Greek flag carrier. No surprise then to find Mrs V running Olympic Catering following last October's change of government.

However, the idea that the toughest part of her job would be supervising in-flight meals for the prime minister and his cronies has been upset by an ugly legal dispute surrounding one of Greece's first privatisations.

Abela, a Dutch catering company, acquired 49 per cent of Olympic Catering in 1991, and wanted to exercise its option to buy another 17 per cent of the business before last year's elections.

Olympic prevaricated, fresh faces suddenly appeared in the Olympic boardroom, and Olympic Catering's top management team was fired.

Abela is now suing Olympic Airways for $100m for breach of contract.

Unabashed, Mrs V wants to rehire the 900 Olympic Catering staff Abela had fired in an efficiency drive. Not the sort of action that is going to whet the appetite of other foreign investors pondering a Greek partnership.

Nor for that matter will it enhance Olympic Airways' own chances of getting a sympathetic hearing in Brussels the next time the Greek government tries to bail it out.

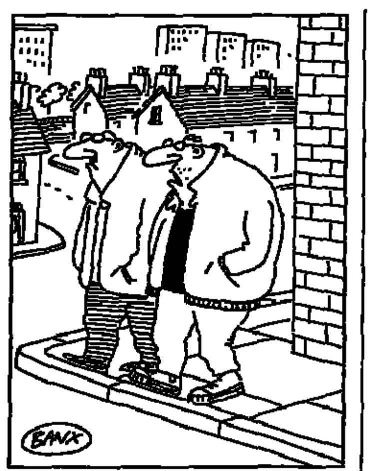
Well spotted

■ Hong Kong's Eastern Express, launched last Tuesday with great fanfare, is having a bit of trouble living up to its motto as the paper "you can trust".

One of its first "exclusives" was a revelation that a company controlled by Peter Woo, part of the Sir Y K Pao dynasty, was spying on Li Ka-shing, one of Hong Kong's richest tycoons.

An eagle-eyed reporter had spotted that a camera situated on the 22nd floor of Wheelock House was pointing at the China Building across the road, where Li and son Victor have their offices, and put two and two together.

Sadly, the 10-year-old camera is actually nothing more sinister than an optical receiver for picking up a real-time data feed from the Hong Kong stock exchange.



'I paid more tax under Labour but I had a job then'

Nothing ventured

■ Britain's venture capitalists seem to be getting itchy feet. Robert Drummond, 48, the venture capital industry's answer to BBC TV Troubleshooter Sir John Harvey-Jones, resigned as chairman of Grosvenor Venture Managers just before Christmas, and now Jon Moulton, Schroder Ventures' high-profile managing partner, has quit.

Moulton, who built Schroder Ventures into one of the most successful UK venture capital firms, has fallen out with his patrons once too often. Apparently, Schroders wanted tighter controls while Moulton yearned for greater freedom. A familiar story in an industry which spends its time backing entrepreneurs with big egos.

Citicorp reached an amicable agreement last year with its venture capital team, allowing them to set themselves up as an independent company but with a commitment from the bank to continue providing funds.

Did this tempt Moulton, 42, a former general manager of Citicorp Venture Capital, to overplay his hand?

Whatever the answer, it sounds like he will not be out of work for long. One investor has already offerred him £50m to play with.

Claws out

■ Ruffled feathers in the taxation jungle. The two owls at the sides of the Institute of Taxation's coat of arms are intended to signify the collective wisdom of the IOT, which comprises some 9,000 of the best brains in British taxation.

Why *two* owls? One represents the wisdom of Inland Revenue officials, the other that of private-sector tax advisers.

Malcolm Gammie, the IOT's president, now says the Revenue owl has "fallen off its perch". The tax advisers' owl is squawking about clause 241 of the Finance Bill, currently before Parliament. The private-sector tax industry sees the clause as a backdoor means of the Revenue poking its nose into their offices uninvited, and even – heaven forfend – removing key papers.

According to Gammie, the offending clause is badly drafted and must be withdrawn. "It confers unnecessarily wide powers upon the Inland Revenue and provides inadequate protection against their exercise".

So far, the Revenue owl doesn't give a hoot.

Sentence stringing

■ Be warned; some of these new-fangled talking phrase books are clearly not up to scratch. One was advertised thus in a recent edition of British Midland's inflight magazine: "Stuck for words?

"This remarkable gizmo contains over 800 useful phrases in English, French, German, Spanish and Italian ... just choose the subject, select the phrase and viola!"

FINANCIAL TIMES
Monday February 7 1994

US and Germany express concern at possible revival of Soviet-style foreign policy

Russia warned to curb ambition

By Quentin Peel in Munich

The US and Germany issued clear warnings to the new Russian government at the weekend not to seek to create any "spheres of influence or interest" beyond its borders.

Both Chancellor Helmut Kohl of Germany and Mr William Perry, the new US defence secretary, spelt out their deep concern at any moves by Moscow to revive a nationalistic foreign policy in the former area of Soviet influence. They also promised to do everything in their power to support reform in Russia, including both economic reform, and integrating the military into the reform process.

Mr Perry revealed plans for the first joint US-Russian military exercise, to be held by the US 3rd Infantry division, and the Russian 27th Motorised Rifle Division, in the Volga region next July.

Both men were speaking at the annual Munich conference on security, where the debate over the future of the Nato alliance was dominated by concern over developments in the former Soviet Union.

Mr Kohl expressed confidence that President Boris Yeltsin "will not listen to those who call for Russia to adopt a nationalistic or even imperialist policy". The Russian leader had confirmed this in a letter in the past few days, he said.

However, he underlined his concern at recent Russian statements suggesting a return to a nationalistic foreign policy. "We all know that in Russia there are deeply rooted fears of encirclement and isolation, and not only in military circles," he said. "Nato must take these fears seriously . . . if it wants to create a wide-ranging security order for the whole of Europe."

He said Nato's policy was now aimed at "a real and stable partnership". He added: "In return, we expect Russia to continue a foreign policy marked by constructive participation in solving international problems." He said The Helsinki Final Act called for "unqualified respect for the sovereignty and integrity of all nations" which "must be adhered to unequivocally by Russia".

He said: "Above all, Russia must foster trust particularly among its neighbours through its own action. Thoughts of creating spheres of influence or interest would not be compatible with this."

Mr Perry warned that Russia was undergoing an internal transformation which "surpasses even that of the Russian revolution of 1917".

It was natural for Russia to have an interest in the well-being of Russian-speaking minorities in the former Soviet Union, he said. But he warned: "If Russian forces operate beyond Russia's borders, they must do so in accord with international law. Russia's legitimate concerns with stability on its borders must not be dealt with by relying on the old Soviet practices of intimidation and domination, or by undermining the sovereignty and independence of Russia's neighbours, whether their independence is old or new."

He urged all the Nato allies to act swiftly to put their plans for partnership with members of the former Warsaw Pact into effect.

Probe into capital flight from former Soviet Union shelved

By Jimmy Burns and Gillian Tett in London

An international investigation into the flight of capital from the former Soviet Union – currently running at an estimated $1bn a month – has been shelved because of lack of support from the Russian authorities.

The investigation by Kroll Associates, US corporate private investigators, was set up by the Russian government amid wide publicity in 1992. It had strong support from the International Monetary Fund and the Group of Seven leading industrial countries, which were formulating aid plans for the former Soviet republics.

Russian officials proclaimed it as their commitment to cracking down on criminal activity and curbing the flight of capital.

But with the IMF in Moscow again considering further Russian demands for help, Kroll has confirmed that the investigation was never completed because of a lack of support.

One investigator said: "We spent months talking to western companies and banks which have been dealing with Russia ... the file we gathered raised our suspicions about certain players and institutions [in the former Soviet Union]. Our problem is that when we sent it to Moscow it was never followed up."

He added: "Undoubtedly our report turned out to be more political than was anticipated."

News of the abandoned investigation comes at a time when cash-rich Russians are reported to be spending heavily in western capitals. According to Mr Boris Fyodorov, until recently the Moscow government's finance minister, Russians are moving into the UK property market. London retailers and auction houses also say there is a keen interest in artwork and jewellery.

While a substantial part of the funds are legitimate, UK officials are concerned that London is becoming a centre for Russian flight capital of dubious legality.

The Institute of International Finance, which represents 175 international banks, has drawn up the estimate of at least $1bn leaving Russia each month, although this includes foreign currency legally deposited by Russian companies into Russian banks, which place it overseas.

A Bank of England official said the lack of reliable information about Russian banks and businesses made it "easier for the fraudsters" to operate in the UK.

West still divided over air strikes on Bosnia

Continued from Page 1

But Britain and France have both called for an urgent Nato ministerial meeting, which Mr Alain Juppé, the French foreign minister, said should serve an "ultimatum" on Bosnia's warring parties to ensure the lifting of the siege of Sarajevo.

That ultimatum should insist that Bosnian Serb troops are pulled back far enough "to make the shelling of Sarajevo materially impossible". In addition, it should specify that all the heavy arms belonging to both Serb and Moslem forces deployed within 30km range of Sarajevo should be gathered together under UN control. Failing this, air power must be used to enforce these decisions, Mr Juppé said.

Mr Douglas Hurd, the British foreign secretary, remained cautious about western military intervention.

Mr Hurd said action should be taken only if those on the spot believed it would help the three UN objectives in Bosnia: to stop the fighting from spreading; to help politicians of all three communities to negotiate a peace settlement; and to make sure that humanitarian aid got through to the civilian population.

Although all countries have asked the UN to find out who was responsible for the massacre as a basis for possible retaliatory action, this will not be easy to establish.

UN experts were unable to determine which of the warring factions had fired the 120mm shell. But Lieutenant-General Sir Michael Rose, the UN military commander in Bosnia, said the Bosnian Serbs had been guilty of a mortar attack that killed nine people in the Moslem suburb of Dobrinja last Friday and that "the world will certainly draw its own conclusions".

Ahtisaari clinches victory in Finnish presidential election

By Hugh Carnegy in Helsinki

Mr Martti Ahtisaari, a senior United Nations diplomat, clinched victory in Finland's presidential election last night, rebuffing a strong challenge from Mrs Elizabeth Rehn, the defence minister.

Mr Ahtisaari, the candidate of the opposition Social Democratic party, won 53.9 per cent of the vote against 46.1 per cent for Mrs Rehn.

On a turnout of 83.3 per cent Mr Ahtisaari won by a margin of a quarter of a million votes out of 3.2m cast.Mr Ahtisaari, 57, will succeed President Mauno Koivisto, a fellow Social Democrat who has served two six-year terms, next month.

His victory, predicted as long ago as last summer, was thrown into doubt three weeks ago when the right-of-centre Mrs Rehn, a member of Finland's small Swedish-speaking minority, took a surprise second place in first-round voting and soon outstripped Mr Ahtisaari in the opinion polls.

But Mr Ahtisaari clawed his way back with a tough attack on the government's economic policies. He also appears to have benefited from doubts among more conservative Finns about voting for a Swedish-speaking woman.

Mr Ahtisaari made his call for greater government efforts to tackle unemployment, which stands at about 20 per cent, his main election platform.

Although the president has little power in domestic policy, Mr Ahtisaari has said he intends to persuade the centre-right coalition of prime minister Esko Aho to adopt more interventionist policies to end three years of severe recession.

The main policymaking role of the president lies in foreign affairs, in which the chief current issue is Finland's application to join the European Union. Mr Ahtisaari has supported EU membership mainly for the economic benefits he sees for Finland.

He also favours neutral Finland's participation in the development of EU foreign, security and defence policies, an important concern among Finns that has recently been given added potency by the rise of Russian nationalist forces that have expressed the view that Finland is part of Moscow's domain.

THE LEX COLUMN

Constricting bonds

The Federal Reserve's decision to tighten monetary policy is both good and bad news for European bond markets. While its determination to keep the lid on inflation should ultimately be positive for longer-dated bonds, uncertainty over interest rates may create nervousness at the shorter end of the market. In theory there ought to be no reason to prevent transatlantic interest rate trends diverging. The US economy has been recovering, albeit patchily, for some time, but continental Europe remains in recession. Even the UK recovery is not yet entrenched enough to raise worries about capacity bottlenecks.

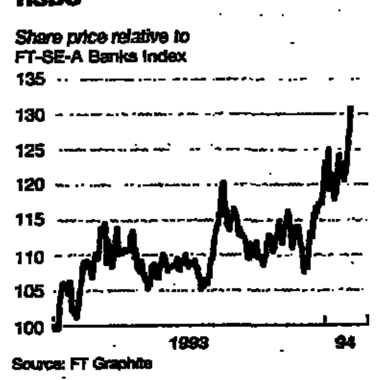
Yet much depends on how far the Fed tightening is reflected in a stronger dollar. The Bundesbank appears increasingly to take the exchange market into account when making interest rate decisions. It is less likely to cut rates if the D-Mark is weak. Increased caution on this score would raise new difficulties for other continental countries such as France, which continue broadly to follow the German example on rates.

The Bundesbank's concern reflects its awareness of the need to attract capital to finance Germany's large public sector deficit. That need exists for the UK too, despite the government's diminishing funding requirement. Bunds would look uncomfortable at a yield discount to their US equivalent if the dollar strengthens sharply. So would gilts at a premium of only around half a point.

HSBC Holdings

There is something perplexing about the sharp rise of HSBC Holdings, especially in the light of Friday's tightening by the US Federal Reserve. Its shares gained 14 per cent last week alone, with much of the driving force coming from Hong Kong, a market where it has tended to under perform recently. The reasons must lie deeper than good figures from both its US and Australian subsidiaries, which make up only a small proportion of its total business. Yet there are grounds to expect the bank's growth in Hong Kong to slow. At some stage provisions, which have been negligible in the Asia-Pacific region, will start to rise again as the Hong Kong property market cools off.

The attraction to the Hong Kong investor may be that HSBC is insulated by its ownership of Midland as well as by the relative quality of its local loan book. Its out-performance in that market could then reflect the idea that more parochial alternatives are becoming relatively more risky as the cycle peaks. But the view from the UK should be different. The impact of the UK recovery should be more strongly felt in the profits of other clearing banks such as Barclays and National Westminster with a more domestic orientation.



Source: FT Graphite

Admittedly, consensus forecast earnings of around 74p per share this year do not make a share price of £10.99 look particularly expensive. The big uncertainty, though, is how the Hong Kong market will react to the Fed's move when the dust settles. Its small tightening might make little difference, either to US investment flows or to the territory's economy. But as a bank operating in a market whose currency is linked to the US dollar, HSBC is sensitive to US interest rates.

KLM

In the light of the European Commission's recent report on the aviation industry, KLM's rights issue raises questions about what constitutes state aid. The Dutch government, which owns 38 per cent of KLM, has agreed to subscribe for its share of the national carrier's Fl 1bn fund raising. This stark change to its previous attitude appears to be a response to the collapse of the Alcazar European collaboration project. Yet rival airlines will scarcely complain. KLM is among the most market-oriented of all European airlines. Its rights issue price has been determined by prevailing stock market conditions.

Air France lies at the other end of the spectrum, being wholly-owned by the government. Yet in the past, it too has raised money by way of a rights issue. Not surprisingly, its cash call has been fully taken up by the government. That looks suspiciously like *state aid.*

But where is the dividing line to be drawn? The picture grows confused in cases such as Lufthansa. The German government has a 51 per cent shareholding in its national carrier and retains obligations over its DM3bn pension scheme. The government may be keen to privatise Lufthansa fully but it retains considerable influence over its commercial destiny in the meantime. The suspicion must be that governments will continue to support national carriers no matter how hard the European Union tries to ban state subsidies. Is it really possible to imagine Air France going bust?

UK stores

There has been plenty of ink spilt recently on the subject of tax rises and their blood-curdling impact on consumers. Yet recent work by James Capel suggests the fears are overdone. While taxes will rise by some £10.4bn this year, consumer spending may rise by £19bn as a result of increases in income and a rundown of savings.

The question is how this extra money will affect prospects for the retailing sector. Retail sales tend to be more volatile than overall consumer spending, since they contain a greater discretionary element. Equally, non-food retailing tends to benefit from an upturn more because food purchases are pretty stable. So while Capel's estimate of £19bn equates to an increase of 4.7 per cent in consumer spending, the broker thinks that non-food retailing could grow by 6.5 per cent. Large stores may do even better. After inflation, quoted stores volumes may rise by almost 4 per cent, only slightly less than the healthy 1993 figure.

Against that, there is much talk of further pressure on margins. Retailers such as Sir Geoff Mulcahy of Kingfisher have made much of low prices as the way to lift sales. Sir Malcolm Field of W H Smith has said that this competition may be more apparent than real. Capel's statistics seem to support this view. Margins have only fallen slightly in the last three years, and are expected to remain stable in 1994 and 1995. The squeeze on prices has been offset by a mixture of fewer discounted sales, better stock control and improved sourcing. It is companies such as Burton and ironically, Kingfisher, which still have much of this work to do, that will find it hardest to offset the pricing pressures.

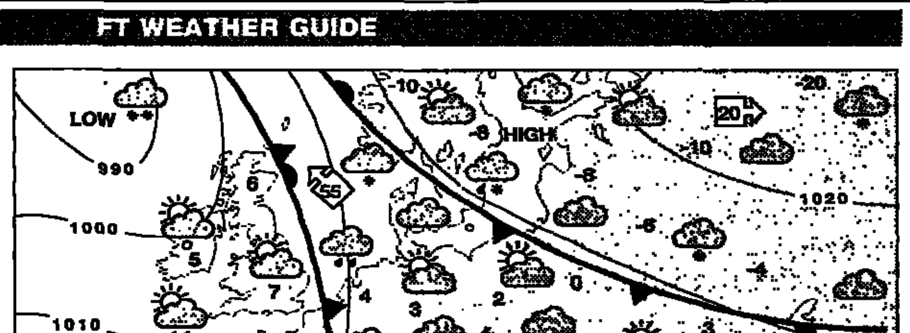
FT WEATHER GUIDE

Europe today

High pressure will dominate most of Scandinavia bringing calm but cold conditions. Overnight temperatures will drop to -30C in parts of the north. The northern and southern regions will have low clouds, producing light snow. The central regions of Scandinavia will have sunny periods.
A weak front will stall in the Benelux during the afternoon, producing sunny spells in the morning, grey skies and drizzle in the evening. Central Europe will be overcast with some broken cloud, but will remain mainly dry. The southern parts of the Austrian Alpes will have light snow. A depression over southern Italy will bring many showers, some with thunder, over Italy, Greece, the southern Balkan and west Turkey. Strong north-westerly breezes, reaching gale force at times will buffet the Algerian coast. Thunder showers will also occur.

Five-day forecast

The depression over southern Italy will move towards Turkey. Two frontal systems from the Atlantic, will bring cloud and rain across the British Isles, reaching the continent first by Tuesday and then by Thursday.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

		Maximum Celsius
Abu Dhabi	sun	22
Accra	fair	32
Algiers	fair	17
Amsterdam	cloudy	4
Athens	thund	13
B. Aires	sun	29
B.ham	shower	7
Bangkok	fair	36
Barcelona	cloudy	12
Beijing	cloudy	7
Belfast	shower	5
Belgrade	shower	10
Berlin	cloudy	2
Bermuda	fair	22
Bogota	shower	19
Bombay	sun	28
Brussels	cloudy	5
Budapest	cloudy	11
C.hagen	snow	0
Cairo	sun	22
Cape Town	cloudy	26
Caracas	cloudy	24
Cardiff	shower	7
Chicago	fair	-8
Cologne	cloudy	4
D' Salaam	sun	31
Dakar	sun	24
Dallas	cloudy	22
Delhi	sun	24
Dubai	fair	22
Dublin	shower	5
Dubrovnik	shower	13
Edinburgh	cloudy	5
Faro	fair	15
Frankfurt	fair	3
Geneva	cloudy	0
Gibraltar	cloudy	17
Glasgow	shower	5
Hamburg	cloudy	3
Helsinki	cloudy	-9
Hong Kong	fair	25
Honolulu	fair	26
Istanbul	shower	9
Jersey	fair	8
Karachi	sun	26
Kuwait	sun	18
L. Angeles	rain	13
Las Palmas	shower	21
Lima	cloudy	28
Lisbon	fair	13
London	fair	7
Lux.bourg	fog	1
Lyon	cloudy	0
Madeira	cloudy	18
Madrid	fair	10
Majorca	fair	15
Malta	shower	12
Manchester	shower	7
Manila	cloudy	32
Melbourne	fair	28
Mexico City	hazy	21
Miami	fair	28
Milan	shower	8
Montreal	cloudy	-12
Moscow	cloudy	-9
Munich	sleet	2
Nairobi	sun	26
Naples	shower	14
Nassau	fair	25
New York	fair	5
Nice	cloudy	10
Nicosia	thund	15
Oslo	snow	-5
Paris	rain	8
Perth	sun	25
Prague	cloudy	3
Rangoon	fair	33
Reykjavik	sleet	3
Rio	thund	29
Riyadh	sun	20
Rome	shower	14
S. Frsco	rain	16
Seoul	fair	8
Singapore	thund	31
Stockholm	snow	-5
Strasbourg	cloudy	1
Sydney	fair	34
Tangier	fair	14
Tel Aviv	sun	22
Tokyo	fair	10
Toronto	sun	-5
Tunis	shower	14
Vancouver	snow	1
Venice	shower	9
Vienna	cloudy	9
Warsaw	cloudy	-2
Washington	sun	7
Wellington	fair	23
Winnipeg	fair	-22
Zurich	cloudy	2

FINANCIAL TIMES SURVEY

EMERGING MARKETS

Monday February 7 1994

Funds pour into new growth regions

While economic progress in the developed countries has slowed seriously, expansion in the rest of the world has generally been rapid, and often accelerating, writes Barry Riley

A potentially dramatic new phase in the development of the global economy, in which growth is shifting towards poorer countries, is becoming ever more clearly detectable. It is being matched and stimulated by a massive strategic move by international investors into the so-called emerging markets.

It is estimated that last year close to $40bn was invested in emerging market equities by international investors, especially Americans; meanwhile, eurobond issuance by emerging markets borrowers approached $30bn.

Although many of the emerging equity markets are still very small, taken together they now have a capitalisation of some $1,300bn. For some asset allocation purposes they can be regarded as constituting the third largest market in the world, after the US and Japan.

Following the big share price advances typical of 1993, when the average emerging market equity return was nearly 70 per cent, holdings of emerging market stocks by foreigners may now be worth $160bn, according to Baring Securities.

As for debt instruments, Chase Manhattan estimates that the value of tradeable emerging market debt is almost $250bn. Of this a little over half consists of Brady bonds, the form into which many billions of dollars in bank loans have been restructured in a securitisation process – notably in the cases of Mexico, Argentina and Venezuela.

These large and active capital markets have developed in the space of only a few years. Until the late 1980s many of the Latin American countries were still insolvent and cut off from the bond market, while international equity interest in emerging markets was limited to a few specialist investors and pioneers. Now even the staidest institutional investors are making significant allocations to what used to be regarded as fringe markets.

The rewards for investors who were quick to spot the potential of emerging markets have been substantial. The average increase in share prices in dollar terms since 1990 has been 120 per cent, and secondary market prices for external debt have doubled over the same period.

Buoyancy in the emerging markets contrasts with the fact that economic growth in the developed world has slumped seriously as the recession which first damaged the US transferred to Japan and continental Europe. According to the OECD, the aggregate growth achieved by its members last year was about 1 per cent (and zero excluding the US), the worst outturn for the developed world since the second world war. Growth will only pick up to around 2 per cent in 1994, says the OECD.

Yet expansion in the rest of the world has generally been rapid, and often accelerating. China has been generating growth in GNP of 13 per cent, and although this is surely unsustainable, and according to some is statistically exaggerated, many south-east Asian nations have maintained growth in the 6 to 8 per cent range for extended periods.

The output gap between rich and poor countries remains immense – but perhaps that is also a measure of the growth potential of the developing nations. China and India today have about a half of the world's population but less than 10 per cent of output, on conventional measures.

Mr Arnab Banerji, chief investment officer of Foreign & Colonial Emerging Markets, enthuses about the potential for the developing countries. "Three billion people will have a growth rate of 6½ per cent for the foreseeable future," he says. "It's the biggest investment theme of our time."

The emerging markets boom can be seen as an inverse consequence of the slowdown in the developed world. As first the US and then Japan and Europe have decelerated, surplus savings have been generated. Now the capital is pouring into the emerging markets. They have always had a surplus of cheap labour but now they have available imported capital and transferred technology, too. This potent mixture is producing a surge of economic growth.

But this is only happening because of the collapse of the barriers which formerly cut off the developing world. Arguably the global economy is returning to normal after many years of division and distortion. Suddenly the late 20th century economy is beginning to look more like that of the late 19th century. "These are not so much emerging markets as re-emerging markets," says Mr Michael Howell, global strategist at Baring Securities.

There are clear parallels with the late 19th century when Britain, as the leading industrial nation of the day, began – along with other European nations – to pump large sums into (especially) North and South America. By 1914, British investors owned 27 per cent of the equity market in the US, the leading emerging market of the day.

Britain's share of global industrial production tumbled from about a third in 1870 to only 13 per cent in 1913, while the US expanded its share from 23 to 36 per cent over the same period. A similar transfer of output and capital now appears to be taking place, although these days the US is on the other side of the fence.

"Developing country growth rates are set to rise further," says Mr Sushil Wadhwahi, international equity strategist at Goldman Sachs. "It is not unreasonable to expect the total output in developing countries to exceed OECD output in the next 10 to 20 years."

Many of the emerging markets remain the same as a century ago. Mr Howell points out that the international stocks listed in the first Financial Times in 1888 included Western & Brazilian Telegraph, Central Uruguay Railway and Imperial Ottoman Bank.

So why is this shift taking place now? It seems that the political environment has changed fundamentally. The event that more than any other symbolised the change was the fall of the Berlin Wall. Soviet communism collapsed, and with it the model of centralised state economic planning that had held so many poor country governments in thrall – if only for the opportunities such an approach provided for the exercise of political power and the practice of corruption. Most third world nations are now turning to market-based economic policies, with varying degrees of enthusiasm, but with little practical choice.

There is some irony in that Latin American countries regarded the tearing down of the Berlin Wall four years ago with dismay. Capital would flood from western Europe and the US into eastern Europe, they reasoned, and would be diverted from Latin America because of its financially chequered history.

It has not worked out at all like that. Political clouds still loom over eastern Europe and the former Soviet Union, while in the third quarter of 1993 alone US investors poured some $3.8bn net into Latin American equities.

Other factors have played an important part. The ending of UK controls on overseas investment in 1979, for instance, stimulated cross-border flows to an important degree. In contrast, most Continental European investment institutions remain shackled by controls.

Now American and, to some degree, Japanese investors are becoming active buyers of emerging equity markets, seeking better growth prospects than are available in their sluggish domestic economies.

They are also seeking higher returns in emerging bond markets, as an alternative to the very low interest rates in their domestic bond markets.

It is all very reminiscent of the approach of the managers of Foreign & Colonial, Britain's first closed-end investment trust (and after 125 years now its biggest) when it was floated in 1868. Its £1m portfolio of emerging market government bonds yielded 8 per cent, compared with only about 3 per cent on UK Consols at the time. Now, late 20th century American pension funds are chasing high returns in much the same way and in much the same countries. F & C today has its own specialised emerging markets offshoot, managing assets of $1.3bn

One other essential condition for the triggering of the new-emerging markets boom was that the Latin American debt crisis should be resolved. The tangle arising from the misguided bank lending of the 1970s was finally unravelled in most cases by 1990.

According to the Institute of International Finance in Washington, commercial banks now hold no more than 40 per cent of emerging markets debt, down from 55 per cent in the early 1980s. The dangerous concentration of risks within the banking system has been largely dispersed.

However, six significant debtor states with total commercial bank liabilities of $135bn, including Brazil, Peru and Russia, have still to agree restructuring deals. If and when they do, the scope for activity through the international capital markets will be still further enhanced.

It is now back to basics in the finance of emerging markets. The theory is that it is much sounder for the securities markets to finance private sector organisations than for banks to lend to governments. All the better if foreign investors can ride alongside domestic investors and thereby gain political security. This can be achieved through voucher-based privatisation schemes, as in eastern Europe, mutual fund promotions, as in India, and the growth of domestic pension schemes, as in Chile.

The US and Japan have matured from emerging to developed status during the 20th century. The emerging markets boom reflects the increasingly confident view of global investors that many more poor countries will follow the same path to prosperity during the next few decades.

■ INVESTMENT: INSTITUTIONS AND MANAGERS

THE INVESTORS

Third world reaches for the big-time

Only a few years ago investors regarded third world securities as being of interest only to specialists and speculators. The International Finance Corporation, the Washington-based development institution, ploughed a lonely furrow in formulating stock market indices and generally promoting the potential of the emerging equity markets.

Now emerging markets have emerged into the big-time. "The early investors were only the sophisticated ones," says Mr Narayan Ramachandran, of the Connecticut-based pension consultants Rogers, Casey & Associates. "Today this is widely accepted as a legitimate asset class."

He reckons that emerging markets now account for about 10 per cent of the international allocation of equities by US pension funds. Other investors may be more adventurous: the US Securities Industry Association estimates that in the 1990s US investors of all kinds have directed nearly 15 per cent of equity outflows into emerging markets, against 4 per cent of a much smaller total in the 1980s.

In London, Mr Michael Howell, global strategist with Baring Securities, reckons that even this is an underestimate, because a significant part of the US outflows pass through London before being invested in emerging markets and are not clearly reported to the American authorities.

Baring estimates that from a tiny base in the 1980s – only $3.2bn from all international sources went into Latin American and Pacific Rim equities (excluding Japan) in 1988 – the total soared to almost $20bn in 1992 and to $38bn last year. This year the figure is likely to rise further, to some $45bn.

At the end of 1993, says Mr Howell, international holders owned emerging market equities worth $160bn. US investors accounted for two-thirds of this total.

A variety of factors lies behind the surge in interest. The growth of market-oriented economic policies has opened up many countries to serious foreign investment, and in Latin America the ending of the debt crisis has been crucial to the restoration of international confidence.

For institutional investors, however, the slowdown in western economies and the accompanying sharp fall in long-term interest rates, especially on dollar bonds, may have been vital triggers.

US pension funds cannot meet their actuarial rate of return targets by investing in top grade domestic assets, and so are looking further afield.

"The principal rationale for investment in emerging markets is high returns," says Mr Ramachandran. "The overall rate of return expectation for a pension plan is 10 per cent, but for emerging markets the projection is 15-20 per cent."

Emerging markets now account for about 15 per cent of the international allocation of equities by US investors

Mr Howell takes this a stage further by arguing that mature market equities are likely to provide much less attractive returns in the future because of slower economic growth in the developed world. Accordingly a third of mature market equity portfolios should be shifted into emerging markets. For a typical US defined benefit pension plan this would imply that a fifth of its overall portfolio should be in emerging market equities.

Mr Nigel Morecroft, of Foreign & Colonial Pensions Management, argues that the exposure of UK pension funds to what are today defined as emerging markets will climb from 2 to 20 per cent over the next two decades.

It is certainly true that many investment institutions are seeking to raise their exposures sharply. Several pioneering emerging markets fund managers have therefore been in a strong position to cash in on the mushrooming demand for their expertise in this area.

The biggest is probably the Capital Group, the Los Angeles-based firm of global money managers that linked up with the IRC in 1986 to launch the Emerging Markets Growth Fund, a US closed-end fund now worth some $3bn.

A London consultancy firm, Fund Research, conducts highly detailed research on emerging markets fund managers, both on a global and regional basis. It says that the top-ranking managers are to be found in the US, the UK and Hong Kong.

Among the top firms, besides Capital Group, is Emerging Markets Management, of Virginia. This was founded in 1987 by Mr Antoine van Agtmael, himself a former executive at the IRC. EMM is described as a "leading edge" manager which has recently been exploring the potential of the more esoteric markets in Africa and eastern Europe.

Another top manager is Templeton, like Capital Group a bottom-up stock-picking global investor which has been drawn into emerging markets by the values to be found there. Mr Mark Mobius runs Templeton's emerging markets funds out of Hong Kong.

Back in the US, Morgan Stanley Asset Management has been very prominent in the recent institutional charge into emerging markets, under the chairmanship of Mr Barton Biggs.

As for the UK, Schroder Investment Management is a highly- rated participant, along with GT Management and Genesis Investment Management. The first two have the advantages of being substantial international organisations: GT, for instance, runs all its emerging markets funds out of Hong Kong, while Schroder operates primarily in London, although with the benefit of an international network.

Genesis, however, is a young (less than five years) specialist boutique which has quickly built up a presence of approaching $1bn in emerging markets. Hypo Foreign & Colonial is probably about the same size in emerging markets: it built up its presence under the name Latin American Securities, but it now trades as F & C Emerging Markets.

This is not, of course, an exclusive list. Giants such as Merrill Lynch and Fidelity run a lot of emerging markets money. In London there are many other contenders for a slice of this booming sector, including Baring Asset Management, Mercury Asset Management, Kleinwort Benson and Robert Fleming (the latter especially through Jardine Fleming in Hong Kong).

Nowadays there are even emerging markets index-tracking funds, for instance the IFC Investable Emerging Markets Index Fund which was launched last October. It is run by State Street Asset Management out of Boston.

According to Mr Peter Jeffries of Fund Research the best emerging markets managers tend to be quite senior people. "Because general research in this area is so scant you need to have very experienced people," he says.

"Stock selection is becoming terribly important," he says. "There is a huge performance disparity among managers."

A question for the future, perhaps, is whether the emerging markets specialists will continue to remain a distinct category among global managers. In a rapidly maturing scene, the picture of the sturdy pioneer with a survival pack who is the first foreign investor to hit town is becoming rather irrelevant.

In a rapidly maturing scene, the picture of the pioneer with a survival pack who is the first foreign investor to hit town is becoming rather irrelevant

Much of the emerging markets investment is now conducted through deals in the principal financial centres such as New York and London. For instance, turnover in the American Depositary Receipts of Mexican companies is running at $30bn a year.

This shows the scale of the boom. But how robust will the emerging stock markets prove to be in a more demanding investment climate?

The recent successes have been achieved in the context of a continuous rise in share prices on Wall Street for more than three years, and a pump-priming monetary policy by the US Federal Reserve, which led to US capital outflows of well over $100bn last year into all global securities markets. When the Fed tightens will there be a dangerous emerging markets panic as foreigners retreat?

Probably there will not be any serious exodus on the part of the US pension funds. Mr Ramachandran of Rogers, Casey accepts that there is some concern among institutional investors over the possibility of a short-term correction. However, he adds: "Our investors all realise they went into these markets for the long term."

Retail investors who have bought emerging markets mutual funds or (in the UK) unit trusts could be another matter, however. They have often been chasing short-term profits: for instance, several unit trusts investing in south-east Asia achieved 100 per cent-plus returns last year, as did one or two global emerging markets funds.

In December 1993, net sales of unit trusts in the Far East excluding Japan sector reached £114m, and there were also big sales of international growth funds which include the global emerging markets specialists. Emerging markets funds may have therefore accounted for something like a fifth of all unit trust sales for that month.

But these open-ended funds can rapidly go into net redemption when conditions worsen and investors try to take their profits.

Fund managers are forced to sell at any price to meet the demands of their investors for immediate cash.

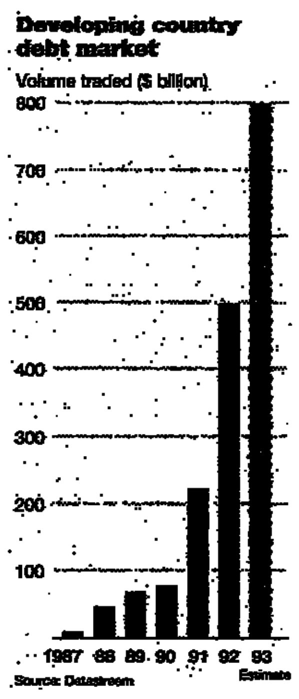
"When the Fed finally hikes US interest rates and slows savings flows to US mutual funds, some of these emerging markets could experience larger corrections than New York," warns Mr David Hale, international economist at Kemper in Chicago.

In the space of a very few years many third world securities markets have emerged from volatile obscurity into the mainstream of global investment. But the emerging markets may not yet have left their often turbulent past completely behind them.

Barry Riley

■ INVESTMENT BARRIERS AND RISKS

Technical problems not insurmountable



Investing in emerging markets is not purely a stock-picking process. As well as poring over balance sheets, investors must also examine government regulations, tax rules and the share settlement process before making their decisions.

The type of restrictions varies from market to market. In China, for example, foreign investors are only allowed to buy special B shares. There is a 10 per cent withholding tax on gross income from dividends, interest, leases of properties, royalties and other China non-source business income. In Pakistan, according to the GT Guide to World Equity Markets, foreign investment is not permitted in agriculture, forestry, irrigation, real estate, radioactive minerals, insurance or health.

A common tactic for international investors is to try to bypass the regulations. The most frequent route is via global depositary receipts (GDRs) or American depositary receipts (ADRs), which are traded on principal stock markets.

According to Mr Kenneth King of Kleinwort Benson "the market generally has an enthusiasm for ADRs and GDRs. The enthusiasm can be judged by the extent to which they go to a premium to the underlying shares."

Dr Arnab Banerji of Foreign & Colonial Emerging Markets gives a practical example. "In Chile, investors face a five-year lock-up clause on their capital. Profits and dividends can be remitted, after a 10 per cent tax, but the mechanics are pretty complicated and bureaucratic." Instead of investing directly, foreign investors use funds and ADRs, tradeable on the New York Stock Exchange. "When you look at the premiums at which the ADRs stand to the domestic stocks," says Dr Banerji, "you can see the price investors are prepared to pay for liquidity."

Mr Giles Neville of Schroders says his company is always going to be led by the custodian. "We have to have confidence that the custodian has settlement procedures worked out in the market. We will buy ADRs and GDRs if we cannot get custody in the local market."

A common tactic for international investors is to try to bypass the regulations

The restrictions may thus only succeed in driving the capital markets offshore, rather as US banking regulations in the 1960s led to the development of the Euromarket. Dr Banerji points to India, where there is a short-term capital gains tax of 30 per cent. "Of the $3bn raised in India last year, some $2bn was in the form of global depositary receipts," he says. "If the authorities changed the tax structure, that money would flow to the domestic market."

Restrictions can be side-stepped by investing in another, more open, market which has close ties to the chosen economy. With only a limited number of Chinese quoted companies, for example, most investors still prefer to gain access to China via those Hong Kong companies which have strong links with the People's Republic.

Another favoured tactic is to invest via a fund which has particular tax privileges. According to Mr King, "Mauritius has a more favourable tax treaty with India than the rest of the world. Funds based there avoid the capital gains tax problem." Restrictions on ownership can also lead to the

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Profile: MARK MOBIUS

Wide quest for pot of gold

Mark Mobius, president of Templeton Emerging Markets Fund, gives two addresses on his business card - one in Hong Kong and one in Singapore - but he might more correctly take a leaf out of the book of Truman Capote's heroine Holly Golightly in Breakfast at Tiffany's and simply put "travelling".

For nearly 10 months of the year the 57-year-old bachelor is on the road in far-flung parts of Asia, Africa and Latin America in pursuit of would-be wealth for armchair investors back in the industrialised countries.

He now covers more than 30 countries, helped by a team of consultants *in situ*, exploring mining operations, digging up agricultural investment opportunities and inspecting production plants in search of the potential pot of gold in some of the developing world's more unlikely spots.

Recently he returned from a tour of a pasta flour mill in Botswana. The flour is used to make spaghetti and cookies, big business in that part of the world in spite of the dearth of Italian mamas and big-eyed bambinos.

Botswana's proximity to South Africa - the two are neighbouring states - where there are government controls on the sale of flour, allows Botswana traders to ship in higher quality flour at competitive prices. This is good news for the South African bakers, who otherwise have to put up with batches cut with poorer grades: quality is extremely difficult to maintain.

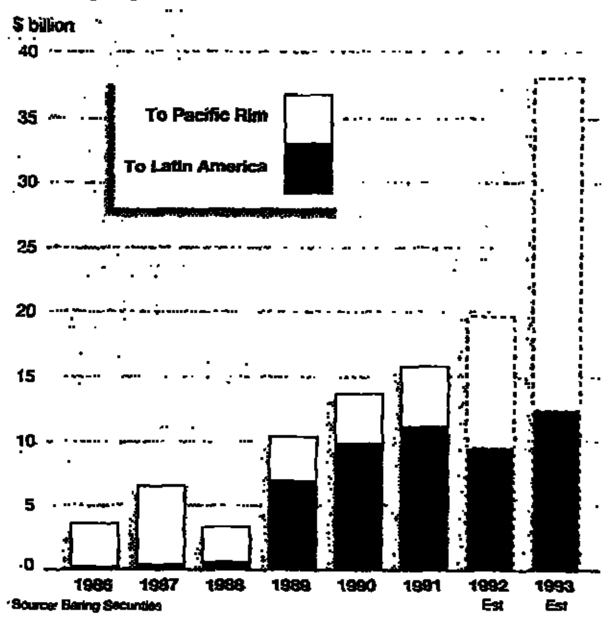
What is good for the bakers is also good for the factory, which has a ready stream of business. And what is good for the factory must also be good for any investors - the clinching factor for Dr Mobius, one of the leading lights in emerging markets funds.

Templeton's Emerging Markets Fund, over which he presides and which stood at US$364m at the end of last year, has risen an annualised average of 61.6 per cent over the past three years. Last year it rose 97 per cent. The fund has a portfolio which spans citrus fruit plantations in Swaziland and tyre manufacturers in Indonesia, and is complemented by the $1.39bn Templeton Developing Markets Trust.

In 1987, when Templeton launched the Templeton Emerging Market Fund it was the world's first such fund listed on a stock exchange with investments in emerging markets as its specific objective. Altogether, the group now has some US$4.6bn under management in 20 emerging markets' funds and portfolios.

Of course, Dr Mobius has a wide horizon: the emerging nations cover 77 per cent of the world's land area and represent 85 per cent of its population, he says - although only 23 per cent of the world's gross domestic product.

Net equity flows



Source: Baring Securities

In spite of this, when it comes to strategy, painstaking research and attention to detail are paramount. Not for nothing does Dr Mobius quote Sir Arthur Conan Doyle: "It has long been an axiom of mine that the little things are definitely the most important." It is also for this reason that he spends so much of his own time travelling extensively.

"Very often the kinds of information we need cannot be obtained readily. You have to dig for it. We have about 24 analysts, but not all travel as much as me. The idea is for us to understand what's happening on the ground," he says.

Dr Mobius - who has not married and has no children - has spent 25 years working in Asia, Africa and Latin America, operating his regional economics and research consulting firm based in Hong Kong throughout the 1970s.

In 1980 he moved to international securities firm Vickers da Costa (which has subsequently merged with Citibank), again starting off in Hong Kong but moving three years later to Taiwan to open the firm's office there and direct operations in India, Indonesia, Thailand, the Philippines and Korea. From 1983 to 1986, he was president of Taiwan's first and biggest investment management firm, International Investment Trust Company, and joined Templeton International in 1987.

Equally peripatetic as a student, Dr Mobius has augmented his bachelors and masters degrees from Boston university with further studies in the US - at the Massachusetts Institute of Technology, where he obtained his Ph.D. in economics and political science, and at the University of Wisconsin - as well as at the University of Mexico and Kyoto University of Japan.

Nowadays the stops are shorter and - contrary to most people's post-student travelling experiences - possibly conducted in more rudimentary lodgings. Speaking to him a week apart will often mean calling different countries.

While eschewing the black-and-white alternatives of picking countries or companies first, Dr Mobius tends towards the bottom-up approach: "We look at stocks first then look at the country through the eyes of the company and how it is being affected by the macropolitical economic social financial situation in that environment: not just in that country but in that *part* of the country.

"For example, Botswana is as big as France so you cannot make generalisations. Then we look at the political suitability because it may be favourable depending what side of the fence one is on."

While emerging funds have proved to be voguish vehicles - on the back of their often impressive returns - Dr Mobius is quick to stress these are long-term investments and not without risk.

"There is a lot more interest in emerging market funds and for that reason we have to make sure we warn people of the dangers, and don't mislead them into thinking this is manna from heaven," he says.

Louise Lucas

Technical problems not insurmountable

Continued from page 2

use of a fund by international investors. "In Korea, the foreign registers for attractive companies are more or less full," says Dr Banerji, "which means you have to find a fund with a local partner to avoid the constraint."

Using a fund, which has already received regulatory approval from an emerging market's authorities, can save a lot of administrative hassle. One fund manager has commented that its application to invest in India was a 2½-feet high pile of paper. Another reported that it took more than 70 pieces of paper to settle a trade in Venezuela.

But there is a limit to the use of these devices. "If people use Mauritius too much," says Mr King, "eventually the Indian authorities will get upset and close the loophole." If there are only a limited number of funds in a market, they can often trade at a premium to asset value, adding an extra element of risk to the investment decision.

Furthermore, there is a constraint on ADR and GDR premiums, says Mr King. "Eventually so many ADRs will be issued that the premiums will go down."

It may be possible to deal with those regulatory and tax problems which are already in place but, of course, there is always the threat that once foreign capital has been attracted, countries might impose new regulations. However, Dr Banerji says: "The international investment community has communicated pretty clearly to governments, that if the rules are changed disadvantageously, they can kiss goodbye to foreign capital for some time."

The tide towards liberalisation and free markets is certainly running pretty strongly at the moment and Mr King thinks a general move to tighten regulations is unlikely. "The whole evidence is that demand for fresh capital is so huge that countries are pressured into facilitating the entry of money," he says.

> Over-burdensome regulations will inevitably encourage capital to go elsewhere

And over-burdensome regulations will encourage capital to go elsewhere. The emerging markets index-makers tend to underweight those markets with restrictions to reflect the lack of availability of stocks. Given the tendency of investors to weight their portfolios in relation to the index, this factor may encourage government to open their markets further.

So although the technical problems involved in investing in emerging markets can be complex, they are not impossible. The issues of settlement, tax and possible regulatory changes are all part of the investment decision, says Mr Neville of Schroders. "It's a risk control process," he says.

Philip Coggan

EMERGING EQUITY MARKETS

ASIA

Most countries are moving rapidly up the development curve

Exciting investments with a rosy glow

Asia provided some of the world's most exciting investments last year.

US institutional investors, in particular, became more aware of the economic prospects for the region, as markets in the developed world appeared less appealing.

East and south-east Asian countries, after years of rapid growth, do increasing amounts of business with each other. Their development is therefore more self-sustaining and less reliant on the health of the industrialised world – though *they still depend very much* on keeping their exports competitive. Most countries are moving rapidly up the development curve, seeking to focus on higher technology and expertise and leaving labour-intensive, low-cost production to emerging countries such as China and Vietnam.

South-east Asian markets saw large inflows of foreign cash at the end of 1993 and a number have since seen price corrections. However, their economic outlook remains rosy.

Hong Kong, too, saw a big influx of investment from abroad in spite of the Sino-British row over its political development. Investors are attracted to the Hong Kong market as a proxy for China, which is seen as the world's most promising growth prospect over the coming *decade but still offers* only limited means of direct portfolio investment.

The exchanges in Shanghai and Shenzhen, however, are likely to see many more companies listed in the next few years.

South Korea and Taiwan are viewed as attractive markets by foreign institutions. *However, the governments* in Seoul and Taipei severely restrict the amount and means of investment from abroad.

The Indian subcontinent has seen economic reform and promises more, with India already boasting a large and well-developed stock market which is increasingly catching attention abroad. Governments *in New Delhi, Islamabad and* Colombo still have to overcome chronic political problems before they can boast the kind of economic growth rates seen further east. But there is considerable potential.

Elsewhere, Vietnam's economic reforms may soon lead to the establishment of a stock market. Mongolia, mired in economic problems, boasts a stock exchange which has been used to hasten privatisation.

Alexander Nicoll
Asia Editor

■ HONG KONG and CHINA

Shop window for red chips

Big-time investors are not normally renowned for toeing the same line as die-hard communist governments, but when it comes to Hong Kong both groups are united in their failure to recognise the place as a separate country distinct from China.

To the Chinese leaders, Hong Kong is a victim of evil colonialism. To the investors – who recognise it in so far as they pour money into it – Hong Kong is an English-speaking, sanitised shop front for the mainland, which is precisely where their money is directed.

Mr Eugene Law, Hong Kong research director at Standard Chartered Securities, said: "When we market Hong Kong equities to clients, we market Hong Kong just as part of the *China concept. A lot of the* new money coming into Hong Kong is coming in with China in mind."

The attractions of Hong Kong as a gateway to China embrace not only westerners – who are more comfortable with the banking and legal framework operating in the colony, and widespread use of English – but also to overseas Chinese, particularly *in Taiwan where direct links* with the mainland are still prohibited.

Corporate Hong Kong has been quick to cash in on this change in sentiment, just as the economic infrastructure has evolved to address new demands on its service industry. Of the 64 new companies that were listed in Hong Kong last year hardly any neglected to devote serious column inches in the prospectus to China plans.

Investors with a foothold in *Hong Kong can participate in* China's growth via equity, debt or venture capital. So far the share market is the most vibrant, although there is a significant number of funds invested in unlisted China projects and many businesses are also taking this route, injecting funds into land and plants *across the border.*

Equity investors have a number of options ranging from the purest form of B shares (shares specially designated for foreigners which are listed on one or other of China's two stock markets) through to Hong Kong-listed companies which carry out the bulk of their *activities across the border: the* so-called red chips.

In between are H shares, former state-owned enterprises now listed on the Hong Kong stock market; American Depositary Receipts of China and Hong Kong-listed companies traded on Wall Street; convertible bonds based on *Hong Kong shares and listed* on Luxembourg or London stock exchanges; and Hong Kong-listed China funds.

Six of an initial nine state enterprises earmarked for H shares are now listed in Hong Kong; a second batch is due to be announced by Beijing any day now.

The popularity of China exposure is reflected in over subscription levels of stocks touting China links: the first H share, Tsingtao Brewery, was oversubscribed by 110 times and saw its share price rise 28.57 per cent on the offer price; China Travel Service was 411 times oversubscribed.

Mr Douglas Eu, an invest*ment manager with Jardine* Fleming Investment Management, says: "It has always been my view that Hong Kong is China. It will indisputably *be* China in three and a half years, and any investment stretches past that time frame. So what people are paying for today is China, and the market has already put a value on Hong Kong shares that is 100 per cent China based."

For foreigners, there is a greater availability of China shares in Hong Kong than there is in the mainland itself. As of January 7, the market capitalisation of the B share markets in Shanghai and Shenzhen stood at, respectively, US$1.7bn and US$952m, while the total for H shares was US$2.32bn. Adding in the wealth of pure China companies traded in Hong Kong – such as China Travel Service *and Guangdong Investments –* gives an aggregate market capitalisation of something approaching US$15bn, he said.

Mr Robert Lloyd George, chairman of Lloyd George Management, reckons the Hong Kong market – which now has a capitalisation of around HK$2.97 trillion – will be split equally between Hong Kong and Chinese plays by the time the colony reverts to China in 1997.

"If you take the market as a whole, we reckon that now something *like 80 to 100 companies could* be defined as China plays: mostly smaller manufacturing companies, H shares, red chips and China shell companies," he said.

The last category is a more recent phenomenon where China companies – many of which are PRC government-related – back into listed entities. Recent examples of these so-called backdoor listings include Shougang International and Shougang Grand (both belonging to Shougang Beijing); Continental Mariner and Beijing Development (CITIC Beijing) and the World Trade Centre (CEROIL).

Part of the appeal of buying a Hong Kong-listed entity – regardless of what its origins might be – stems from problems attached to more direct China investment. B shares are illiquid, in limited supply *– at the moment there are just* 19 B shares in Shenzhen and 23 in Shanghai – and expensive.

(Even when B shares are chosen they are broadly transacted through Hong Kong offices as it is not only investors who prefer the colony: brokerages say staff transferred to offices in Shanghai will often respond by resigning on the spot.)

> Foreigners will find that there is a greater availability of China shares in Hong Kong than there is in the mainland itself

Mr Law said: "When it comes to investing into China, a lot of investors find it difficult to go *into the market itself. Even* B shares and H shares pose difficulties because of the shortage of information."

Bread-and-butter disclosure is sketchy by international standards, and UK or US-based fund managers can find it tricky to make informed decisions on the material available. More often first-time investors will look to Hong Kong-based researchers to interpret the data, or simply stick their money in a China fund and leave the fund manager to do the worrying.

There are some 17 China funds managed by Hong Kong registered companies, with a total net asset value of around US$733m.

There *is also the comfort* factor. The Hong Kong stock exchange, which has been on a roadshow to woo overseas investors, prides itself on its *internationally acceptable regulatory standards.* Much of the perceived risk and volatility is ironed out and investors buy into a more sanitised China.

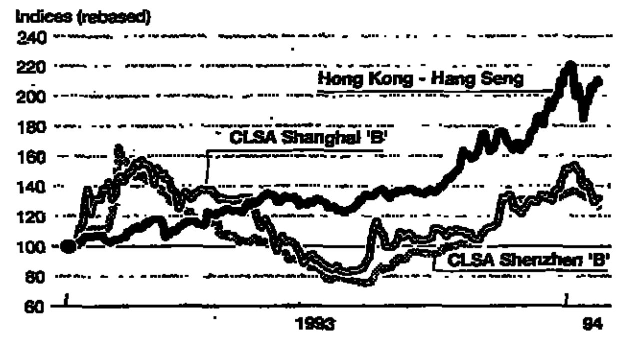
Mr Herbert Hui, head of the Hong Kong stock exchange's listing division, says shareholder protection is a key priority. "The shareholder, be he a fund manager in London or a taxi driver in Hong Kong, should be able to rely on the same standards of protection," he said.

Also important for international institutional investors is Hong Kong's more stable currency, which is pegged to the US dollar. Swings in China's Yuan, as demonstrated *last year, can still wreak* havoc on a China operation's receipts and outgoing, but where the scrip is denominated in Hong Kong dollars the face investment is not affected.

But while Hong Kong has carved itself a unique niche role for now, brokers say it has a limited shelf life. Shenzhen and Shanghai are now as important stops on visiting fund managers' Asia circuit as Kuala Lumpur and Bangkok. Given a year or two, Mr Law reckons Shanghai will become as important a stopping off point as Hong Kong itself.

Louise Lucas

China and Hong Kong



Source: Datastream

Over-subscribed? China's new investors throng the Shanghai securities exchange

Picture: Cathryn Tremain

■ Singapore

Caught up in the bull run

A year ago Singapore brokers were *bemoaning the unexciting nature of the* local market. All that changed in 1993 as Singapore was caught up in the bull run that swept through the Asian markets.

The Singapore main index went up 59 per cent in 1993 and total market capitalisation increased by more than 150 per cent to S$219bn ($138bn).

Singapore is heavily influenced by the Kuala Lumpur market. The two were once joined but split in 1990. However, Singa*pore can still trade in Malaysian stocks* through CLOB (Central Limit Order Book) International, an over-the-counter market for trading securities listed on foreign exchanges.

It is estimated that up to 60 per cent of Singapore's daily trading volumes are in CLOB-listed Malaysian stocks. Out of the 30 most active stocks traded last year in Singapore 24 were Malaysian companies.

Singapore has the reputation of being an *open and well regulated – some would say* over-regulated – market. In spite of recent government moves to partially privatise a number of state companies and encourage share ownership among the public, the market is also still a narrow one.

Though 21 companies went public last year, raising a total of S$6.85bn – compared to 15 initial offerings in 1992 raising only S$514m – almost 60 per cent of total funds raised in 1993 were in connection with the October listing of Singapore Telecom (ST), the telecommunications and post utility.

Analysts say it is unlikely that any more *large, state entities will come to the* market before early 1995.

Foreign ownership: The Singapore government jealously guards what it considers to be key industries and places limits ranging from 15 to 49 per cent on foreign ownership of such companies.

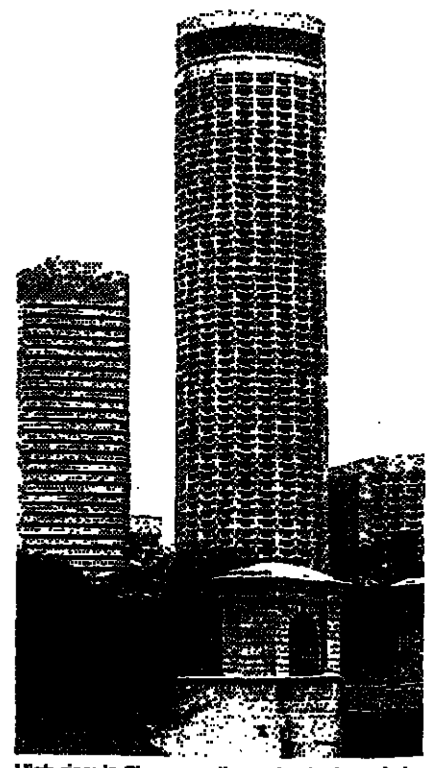
These include Singapore Airlines, Singapore Press Holdings and the four big local banks. There are separate quotations for foreign shares in these companies. Names *of foreign owners must be declared* when shares are registered. Individual foreign investors must declare their interest if they hold 5 per cent or more of any one company.

Foreign exchange/repatriation: There are no controls on such funds in or out of Singapore. Singapore deducts at source a 27 per cent withholding tax on dividend income earned within the country. There is no capital gains tax in Singapore.

Settlement procedures and other regulations: Singapore is moving towards a fully scripless trading system. Dealing costs are payable by both buyer and seller on a downward sliding rate starting at 1 per cent for the first S$250,000.

Trades on the Ready Market are due for settlement on the same day in the week following the date of transaction. The SES enforces a buy-in on the day following a failed settlement. The regular trading lot is 1,000 shares.

Kieran Cooke



High rise: in Singapore the main stock market index went up by 59 per cent last year

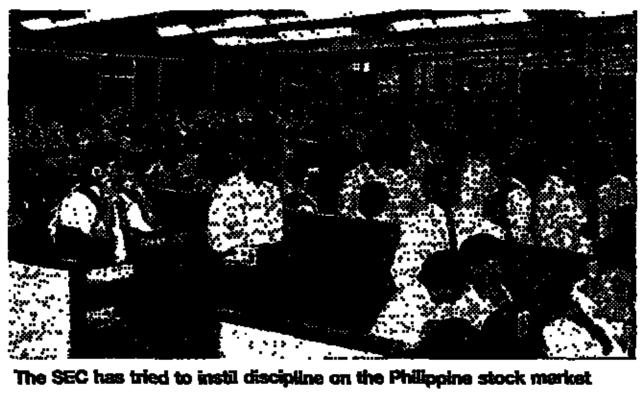
■ THE PHILIPPINES

Watchdog vigilant

The Philippine stock market is is still largely rumour-driven, despite the emergence of professional research activities among brokers.

However, expectations of economic resurgence, along with political and economic reforms, have produced sharp gains for the market.

A government watchdog agency, the Securities and Exchange Commission (SEC), oversees the conduct and development of the market, but it has weaknesses. While it is a quasi-judicial body, the commission is without police powers, so that it cannot enforce implementation of some of its controversial rulings.


The SEC has tried to instil discipline on the Philippine stock market

Yet the SEC has tried to instil discipline. It has been involved in upgrading the level of professionalism; and these efforts have been capped by the recent unification of the two active stock exchanges into a Philippine Stock Exchange, though the two trading floors (PSE-Ayala, in the Makati financial district, and PSE-Tektite, at the fast-developing Ortigas Center) were maintained.

There are 285 issues from 182 companies listed simultaneously on both exchanges, though only about 100-110 of these issues are traded daily.

Foreign investors may buy only the Class B shares. Philippine nationals may acquire both A and B shares. Local companies usually allocate up to 40 per cent of their equity to foreign investors.

However, since most companies going public only offer up to 15-20 per cent of capital on the market, the amounts actually made available to foreigners are small. Thus, liquidity problems arise in many counters whenever there are huge inflows of foreign funds, as happened in late-1993.

The exchanges have two major sections: the big board and the small board. Big-board issues, also referred to as "blue chips", are from companies with a track record of earnings and dividend payments to shareholders. These include the country's leading commercial, industrial and mining enterprises.

The small board is for speculative stocks, mostly newly established mining and oil exploration companies with small irregular production or none at all, and which therefore have no dividends to declare yet.

On each of the two exchanges, 90 broker members currently operate. – Eventually, all 180 will be members of the new entity.

Unification will not bring the two exchanges' activities under one roof, but their computer systems will be linked, providing each other with real-time prices and allowing match-ups of bids and selling prices from either exchange.

Trading on the exchanges starts at 9.30am and ends at noon, with 15-minute extensions allowed but using only 12-noon closing prices. Current SEC rules prescribe a freeze on the trading of a particular issue when its price moves up by 50 per cent or down by 40 per cent during any single day. Trading on such issue resumes only after the SEC has ruled that such fluctuation there is justified.

Sales are done in lots of five to 200,000 shares, depending on the price range of a particular stock. The lots become bigger as the price level goes down.

Brokers charge commissions of usually 1.5 per cent of the total cost of each transaction.

There is no capital gains tax, but a transaction tax of 0.25 per cent of the total transaction cost is charged – which the government is seeking to increase to 0.5 per cent.

There is no tax on dividends received from Philippine companies by resident individuals or corporations. For non-resident foreign individuals, there is a tax of 30 per cent, while that for foreign non-resident corporations is 35 per cent.

Paperwork on transactions involving foreign investors has become simplified in recent years. For an investor who maintains a custodian bank, the process takes about four days.

After confirmation of the sale, the investor may instruct the broker to register the shares in the custodian's nominee name and informs the custodian of the arrangement.

Payments fall due in four days. The custodian bank is to be paid in foreign exchange, converts this amount into pesos and pays the broker that amount in local currency. The custodian bank issues a registration document (a requirement from the Philippine central bank) and gives two copies to the broker. One of these copies is sent to the transfer agent.

After competion of the procedure, the certificates are delivered by the transfer agent to the broker, who delivers the same to the custodian bank. For investors who do not maintain custodian banks, all transactions are centralised with the broker, who coordinates with a local bank in fixing the local currency equivalent of the foreign exchange requirements on the deals. The shares certificates may be kept by the broker for the investor, or they may be delivered elsewhere upon instructions of the investor.

Jose Galang

■ THAILAND

Manipulators targeted

Ekamol Kiriwat, head of Thailand's Securities and Exchange Commission (SEC), was only half joking when he explained recently how Thai stock manipulators had developed their use of bogus nominees to influence share prices: "They used to use their drivers," he said. "Now they use their golf caddies."

The rapid expansion of the 19-year-old Stock Exchange of Thailand (SET) – more than 360 companies and mutual funds are now quoted and volume on a busy day exceeds $1bn – has been accompanied by a fair share of volatility and insider trading.

The Thai market, however, remains popular with foreign investors. Active and wealthy local speculators ensure that most stocks are liquid, the disclosure of financial information by Thai companies has improved, and foreign currency transfers in and out of Thailand have been simplified.

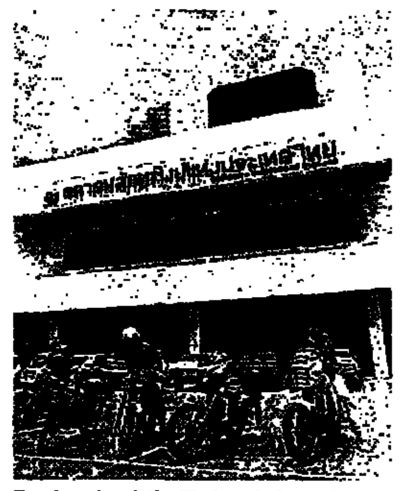
Recognising the need for greater regulation, the Thai authorities established the SEC in 1992.

Under Mr Ekamol, the SEC has taken the pragmatic view that it cannot hope to abolish all insider trading overnight and should concentrate on eliminating deliberate, large-scale conspiracies to create false markets in particular shares. The SEC has fingered three groups of alleged share manipulators since it was founded, and although no-one has yet been convicted (such convictions are hard to achieve even in developed markets) the SEC's vigilance has embarrassed the accused and helped to cool the speculative fever in Bangkok's trading rooms.

Foreign investors have learned to cope with share-ramping; when the word is out in Bangkok that such and such a stock will rise, they are happy to buy shares which they themselves believe to be ridiculously overvalued on fundamentals (and then sell the stock quickly).

Of more concern to foreign investors is the future of Thailand's foreign ownership limits. Foreign ownership is restricted under a variety of laws, usually to less than 50 per cent but to 25 per cent in the case of banks.

Such restrictions create "foreign premiums" when certain stocks – Bangkok Bank for example – reach their foreign ownership limits; in other words the price of the "foreign" share rises above the price of the "local" share in the same company.


Roaring ahead: the Thai market remains popular with foreign investors

As in other countries with foreign limits, the possibility that limits might soon be eased in line with Thailand's financial liberalisation policy has caused volatility in premiums.

The problem is complicated by the fact that many foreigners do own "local" shares through nominees. This is a grey area, but it is supposed to be illegal to pass on dividends or rights to someone not registered as the beneficial owner of the shares.

At least one custodian bank continues to pass on such dividends via nominees to foreign holders, but others have decided not to, although they are prepared to hold the stock itself. Most US institutional investors shun "local" shares in any case, because their internal rules prevent them buying stock without voting rights.

The dangers were highlighted recently when some foreign holders of shares in National Finance and Securities were denied access to a rights issue by their custodian and saw the value of their investment in the company halved overnight.

Foreign investors are thus faced with a dilemma: if they buy "foreign" shares, they risk losing money if the premium falls; if they buy "local" shares, they risk losing dividends and rights. Only the 80 per cent rise in the value of Thai shares since June last year makes these dangers bearable.

Thailand is considering a system of so-called Mexican trusts, which would allow foreigners to buy "local" shares, without voting rights, through the trusts. However, the lack of voting rights would still be unacceptable to US institutions, and the establishment of the trusts might still cause a drop in foreign premiums as non-US investors moved from the foreign board to the trusts.

Victor Mallet

■ SOUTH KOREA

Protectionist policy

The Seoul bourse reflects the nature of the South Korean economy: protectionist, and subject to intrusive government meddling.

Only since January 1992 has the stock market been open to direct foreign investment. Foreigners are limited to buying 10 per cent of a company's shares, and must go through a cumbersome identification process before being registered.

This has proved frustrating for foreign investors who want to take advantage of the country's buoyant economy, which is expected to grow by at least 6 per cent this year.

The foreign shareholding ceilings for Korea's leading blue-chip companies were filled long ago, forcing tardy investors to pay premiums of between 25 to 100 per cent for attractive Korean stock on the over-the-counter market. Overseas funds specialising in Korean equity, which are not subject to the shareholding limits, have also seen their premiums rise sharply.

The government has promised to raise the foreign shareholding ceiling by an unspecified amount in two stages by 1997. But it appears reluctant to do so quickly. The first increase is not due until the second half of this year at the earliest, and may be only a slight rise to 15 per cent.

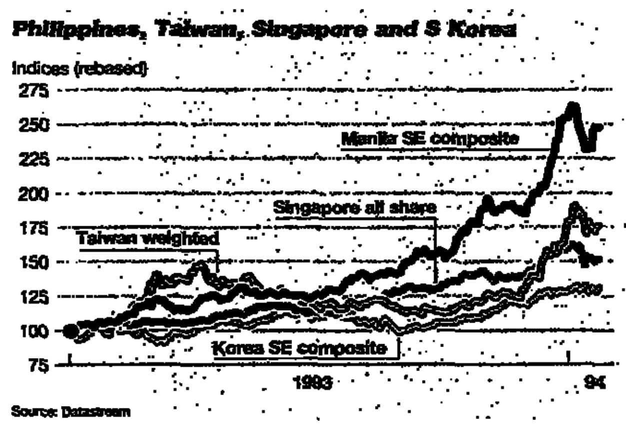
The government justifies its caution by arguing that a sudden and rapid inflow of foreign capital would destabilise the economy, increasing the money supply and boosting inflation, while threatening to cause wide swings in share prices.

Foreign brokers complain that simple xenophobia is the real reason for keeping foreign investment at bay.

Ironically, foreign investment in the past two years has probably stabilised the stock market, which previously had been driven by short-term speculation, with domestic investors paying little attention to fundamentals.

Foreigners have tended to be long-term investors, and, by example, have encouraged Koreans to do the same. But analysis of fundamentals is difficult, because accounting and corporate disclosure rules need to be improved.

Philippines, Taiwan, Singapore and S Korea



Source: Datastream

Recent government efforts to curb anonymous stock accounts have also contributed to a less volatile market, having reduced opportunities for the so-called "big hands" – the main investors that dominate the market – to manipulate share prices.

But this has not discouraged the government from trying to play its part in manipulating the market for political reasons.

The crash of the bourse in 1989 forced the government to intervene as small investors complained about losses.

The government created a stock market stabilisation fund, to buy shares and boost prices. Financial institutions, which operate under tight state supervision, were also ordered to become net buyers. "Korea would like to have the world's first no-fault stock market," said one western banker.

Those efforts have paid off, the share index having almost doubled in the last 18 months. But the government slammed on the brakes in mid-January, as small investors complained that they were losing out to big institutional investors in the bull run.

Individual investors, for example, claimed they had been handicapped by a requirement that they deposit 40 per cent of their buy order before shares are purchased; while institutional investors have not been forced to make an immediate payment guarantee. The government promptly ordered institutional investors to made a 20 per cent deposit.

Foreign institutional investors will be subject to the new deposit requirement, which could further complicate their purchase of shares.

John Burton

■ MALAYSIA

Volumes skyrocket

In terms of market capitalisation, Kuala Lumpur is now the largest market by far in south-east Asia. As the index of the KL market raced upwards in 1993, finishing the year nearly 100 per cent up on January, total market capitalisation increased more than 150 per cent to nearly M$600bn ($225bn).

The top 10 companies on the KL exchange account for about 45 per cent of total market capitalisation: the top two, Tenaga Nasional, the partially privatised electricity utility, and Telekom, the telecommunications company, account for 17 per cent of the market.

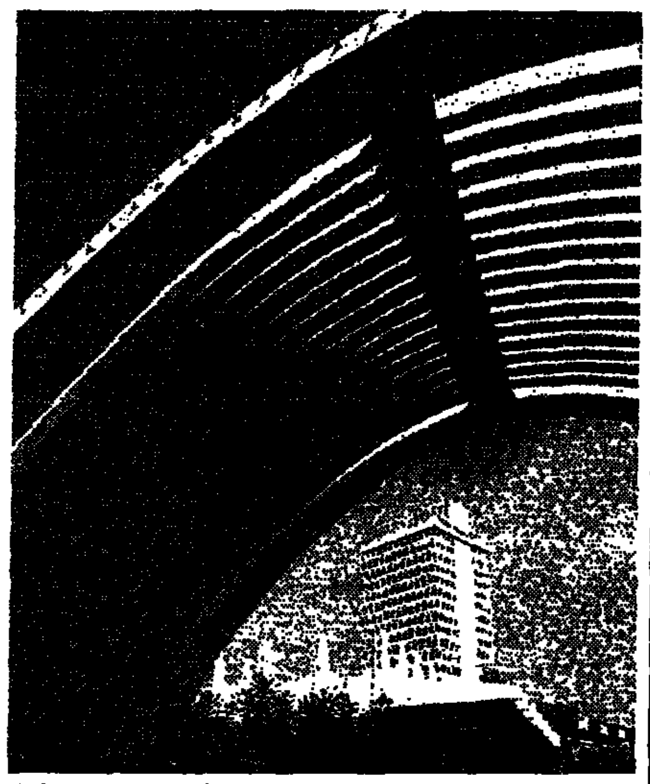
Kuala Lumpur has become known as one of the world's more exciting – and volatile – markets. In common with many Asian markets, large amounts of foreign funds – mainly from the US – flooded into Malaysia in early 1993. Retail investors within the country followed the foreign lead and now account for about 70 per cent of trading volumes.

As a result of the increased liquidity in the market trading volumes have skyrocketed: in January 1993 Kuala Lumpur's average daily turnover was M$200m. In the first week of 1994 average daily turnover was around the M$4bn mark.

Such growth in market activity has created regulatory and logistical problems. KL is moving towards a scripless trading system. At times the present mixed system has been unable to cope. There have been several cases of share scrip going missing. There have been allegations of syndicates rigging share prices, particularly on the second board, the focus of much of the retail trading.

As in many Asian countries, politics and business in Malaysia are closely related. Stock assessments often focus on a particular company's political connections rather than on its balance sheet.

In March 1993, a Securities Commission was appointed to take action against market abuses. "The Securities Commission wants people to make money," said Mr Mohamad Munir, its chairman. "However, they should not make mischief."



Kuala Lumpur: one of the world's more exciting markets

Some market abusers have been brought to court. The authorities have also insisted on more transparency in share transactions and better disclosure – often a problem within tightly run, mostly Chinese, family companies.

Meanwhile, brokers have been told to improve their back-office operations to deal with sudden surges in volume.

Foreign ownership: Foreigners have to check on the shareholding limitations of particular companies. A limit of 30 per cent on foreign ownership applies to many of the older listings. But on newer listings deemed to be strategic companies by the government – such as Tenaga and Telekom – the limit for foreign ownership is 25 per cent. However, on some companies, particularly those listed on the second board, there is no ceiling on foreign ownership. Share acquisitions of more than M$5m or of 15 per cent of a company have to be first approved by the government's foreign investment committee.

Foreign exchange/repatriation: While Malaysia operates foreign exchange controls these are fairly liberal. Profits, dividends, capital, royalties, fees and commissions can be freely transferred abroad in any currency. The Central Bank requires forms to be filled in for payments above M$10,000: this is principally designed to monitor monetary flows in and out of the country.

Foreign investors do not need special permission to invest in Malaysian shares. There is a 34 per cent tax on income from dividends. A 20 per cent withholding tax is imposed on foreigners whose countries do not have double taxation agreements with Malaysia.

Settlement procedures and other regulations: Settlement has to be completed within seven days of the transaction on normal or "ready" deals. The regular trading lot is 1,000 shares.

Kieran Cooke

■ Indonesia

Learning from misfortune

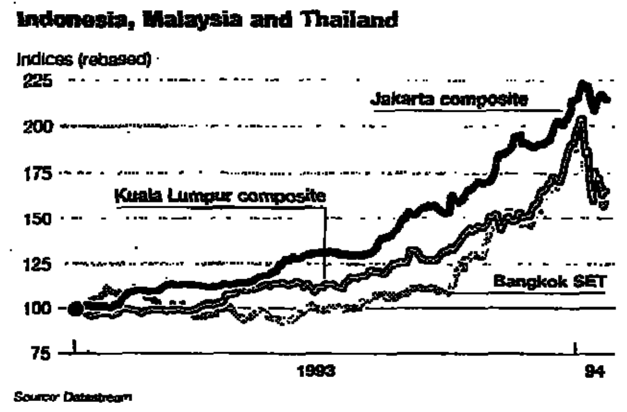
Indonesia's stock market has steadily gained equilibrium, after problems arising from overheated share prices caused foreign investors to flee, in many cases with heavy losses, in 1991.

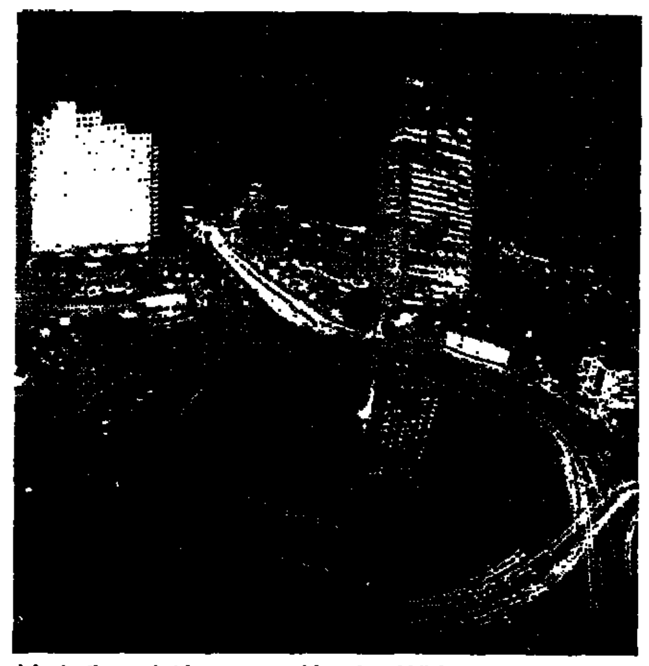
Though it rose steadily throughout 1993 – ending the year 115 per cent up in local currency terms – memories of that shake-out, coupled with low liquidity, protected the stock market from some of the excesses of the flood of foreign money into south-east Asia in the later months of the year.

Many brokers and fund managers believe this means that Indonesian shares remain attractive. Mr Mike Balfour, overseas investment director of Edinburgh Fund Managers, which runs the EFM Java Trust, says: "Of all the stock markets in Asia, Indonesia's is the most attractive, because it has not had such a speculative run-up as other markets have."

Liquidity is low, because many companies remain closely-held by family owners, with only a small portion of their equity really available to be traded. According to Baring Securities, average daily trading volume is only $33m, compared with market capitalisation of $39bn. However, both figures are well up on 1992, when they were $13m and $19bn respectively.

Indonesia, Malaysia and Thailand





Jakarta: the market has recovered from its whirligig days

The number of new listings picked up last year, after a lull. Barito Pacific Timber immediately became the largest company on the Jakarta Stock Exchange, and saw its shares move to a large premium as soon as they were issued in October.

Foreigners are limited to holding 49 per cent of a company's listed stocks. This means that investors must monitor foreign holdings closely. It also means that, as in some other Asian markets, the price for foreigners can differ from the local price quoted on the Jakarta exchange. Shares in demand among foreigners may be at a substantial premium.

In other respects, however, there are few restraints on foreign investors, and regulation has become far more effective since the debacle of 1991.

Analysts believe that the economic outlook underpins a healthy outlook for the stock market. The economy is expected to grow at around 7 per cent in 1994, slightly up on 1993, with inflation declining to around 7 per cent from 10 per cent in 1993. Interest rates are expected to fall.

Growth in exports and in corporate earnings are forecast to be strong, and aid flows to remain high. The rupiah is expected to continue to depreciate by about 5 per cent a year.

Though there is uncertainty about the longer-term political future, President Suharto, who has managed the country's economic development for 26 years, remains firmly in control at the age of 72.

Alexander Nicoll

■ TAIWAN

Foreigners risk disappointment

Analysing Taiwan's mercurial stock market has never been easy, but it is simpler than divining the mood of the country's central bankers. Citing concerns over an appreciating currency and impending chaos in the financial markets, the powerful bank moved to quash a year-end stock rally by mopping up liquidity and cutting off foreign investment, writes a correspondent in Taipei.

Until a few months ago, none but the strictest of asset managers went to the trouble of investing in Taiwan's historically overvalued stock market. But when neighbouring markets became dangerously top-heavy, fund managers flocked to invest in Taiwan, which after several sluggish years looked comparatively cheap.

Most of them will be disappointed. While other Asian countries have chosen to capitalise on the deluge of foreign funds pouring into the region, Taiwan's conservative Bank of China appears determined to keep the local stock market all but hermetically sealed.

At about 2 per cent of total market capitalisation of $183bn as of January 14, foreign investment remains a force of inspiration more than substance in Taiwan's bourse. "In the context of Asian markets, Taiwan is successfully becoming a non-market", says Mr Mark Mobius, president of Templeton Emerging Markets Fund. "Taiwan has got to join the world. That's the bottom line".

Long-standing promises to liberalise financial markets appear designed more to enhance Taiwan's bid to join the General Agreement on Tariffs and Trade than to attract foreign investors. Unlike South Korea, Taiwan has yet to set a timetable for its reforms, which for the most part have been painfully slow and fitful.

> Foreign investors have been virtually frozen out of the market which promises some of the best growth prospects in the region

The central bank has set an overall ceiling of $5bn on foreign investments in the local bourse. Each would-be foreign institutional investor (foreign individuals are not allowed to buy local shares) must apply to the central bank for an investment quota of no more than $200m.

If approved, funds may be remitted, usually in small tranches, into the country at the discretion of the central bank. The entire process can take several months. Investors must wait at least three months before profits may be repatriated again, at the central bank's discretion.

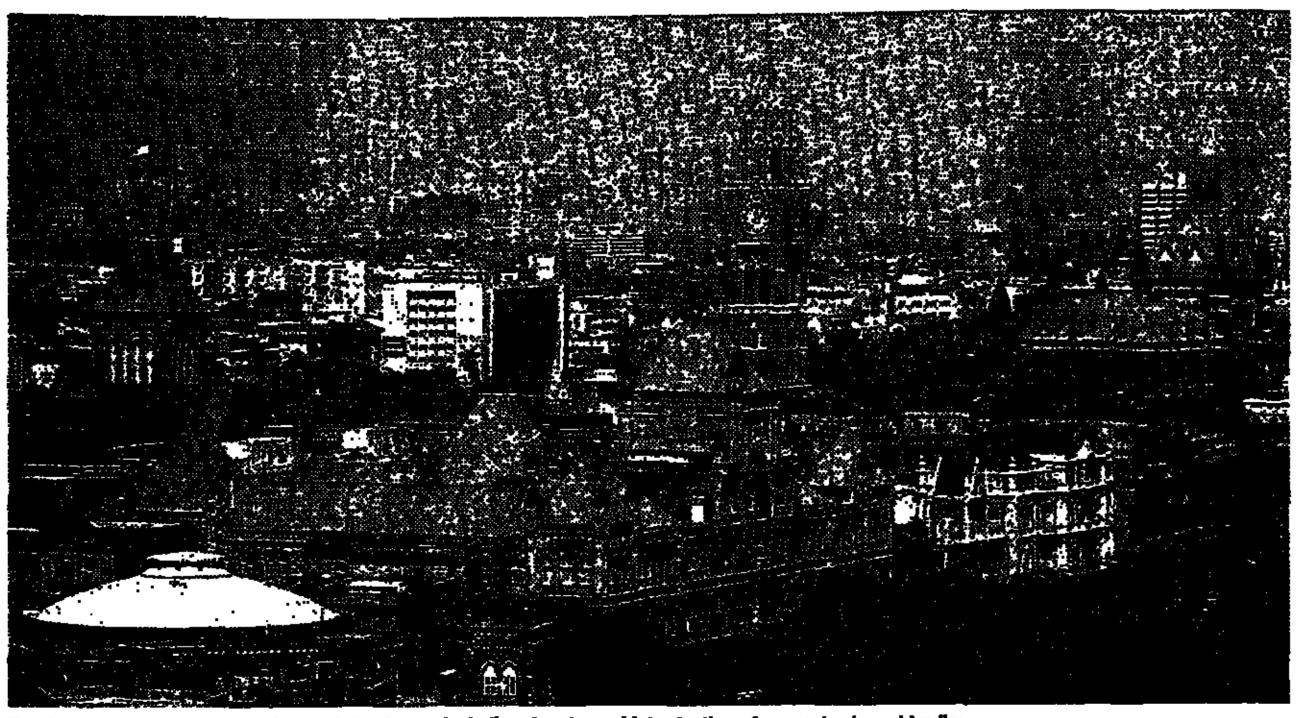
As of mid-January, foreign institutions had brought a net amount of roughly $3bn into the country since the equity market was first opened to outside investment in early 1990. Approved quotas worth $1.3bn awaited the central bank's green light to be remitted into the country. Applications pending at the central bank totalled $1.5bn.

The total now exceeds the cap on foreign investment. But fearful that the runaway bourse, stoked by underground financing, would career out of control and destabilise the financial system, authorities recently ruled out raising the ceiling. Foreign investors have thus been virtually frozen out of the market which promises some of the best growth prospects in the region.

This situation may eventually change, but the process will likely be slow, punctuated by back-tracking and muddied conflicting signals. Ultimately, Taiwan may open up to foreign investment only if it is forced to do so as a condition to GATT entry, or when it decides that it needs foreign capital to upgrade its industrial base and develop infrastructure.

For the time being, planners feel they have the luxury of turning foreigners away.

EMERGING MARKETS



Bombay: brokers are pressing for market reforms, including the planned introduction of computer-based trading

Karachi stock exchange: brokers are dissatisfied with the cumbersome trading and settlement procedures

Picture: Alan Nicoll

■ INDIA, PAKISTAN and SRI LANKA

Foreign buyers cast a spell

Stock markets in India, Pakistan and Sri Lanka have all fallen under the spell of the foreign buyer in the past year. International fund managers, flush with money for emerging markets, have put money into all three countries, *pushing equities to* record levels in Karachi and Colombo and close to record levels in Bombay. The Karachi Stock Exchange's index rose by 74 per cent last year, the Colombo Stock Exchange index of leading stocks by 73 per cent and the Bombay Stock Exchange's index of 30 top shares by 29 per cent.

Each country has its attractions for foreign investors. India is in the throes of its biggest economic reforms since independence; it has weathered many political shocks, including the assassinations of two prime ministers and last year's religious riots; its markets are potentially the largest in the world after China. Moreover, foreign portfolio investment has been permitted only since late 1992 – so international fund managers must build their holdings virtually from nothing.

A single foreign investor may not hold more than 5 per cent of any Indian stock. Foreign investors as a whole are limited to a combined 24 per cent. Foreign investors enjoy special concessionary tax rates – tax on short-term capital gains is levied at 30 per cent on *foreigners (51.75-57.75 per cent* for Indian investors). Gains on stocks held for more than a year are taxed at just 10 per cent for foreign investors (46 per cent for most Indians.). The taxes are payable prior to repatriation of profits, which can then be freely converted into foreign exchange.

India offers investors a large market with some 7,000 listed companies, quoted on 22 stock exchanges of which the biggest is the Bombay Stock Exchange, accounting for about two-thirds of total turnover. The BSE's total capitalisation exceeds US$100bn. However, only about 2,000 shares are actively traded and only about 200 of these are traded in volumes large enough to attract foreign investors.

The Bombay Stock Exchange is run largely by its member brokers, who have been repeatedly criticised for alleged insider trading, mis-pricing investors' transactions for their own benefit and ignoring accounting rules. Most recently, the parliamentary report into the 1992 Bombay securities market scandal dealt extensively with the BSE's alleged regulatory shortcom*ings. The Securities and* Exchange Board, the markets watchdog established in 1992, has recently forced the BSE to raise its standards of service for investors. At the time of writing, it had ordered brokers to suspend an untransparent informal forward market, known as badla, in an effort to curb abuses. Internationally-minded brokers are pressing the BSE for reforms, including the planned introduction of computer-based trading, which should eventually speed transactions and settlements, reducing the scope for cheating. Today, settlement periods run to one week for the most actively-traded stocks and two weeks for others. The exchange has been hit by several brokers' strikes in the recent past, which cause delays and undermine confidence.

India is in the throes of *big economic reforms* and its markets are potentially the largest in the world after China

Investment by foreigners is limited to institutions which have secured prior approval from SEBI. Non-resident Indians, treated as a special *category under many* Indian laws, may invest without prior authorisation. About 130 institutions have secured SEBI approval, but only around 15 of these are investing actively. The others are in the process of preparing and launching funds. Bombay has a long tradition of western-style commercial services, such as book-keeping and legal advice. Nevertheless, services geared to the needs of foreign portfolio investors are still in their infancy. There is, for example, a grave shortage of custodial services.

Pakistan has been open to large-scale foreign portfolio investment since the early 1990s and foreigners now own an estimated 5-7 per cent of Pakistani equities. Pakistan has undertaken considerably more radical pro-market reforms than India, but its attraction for foreign investors is clouded by the disruption caused by power struggles in the ruling elite. Ms Benazir Bhutto's recent return to the prime ministership has prompted a sharp rally in equities, though doubts remain about her ability to bring long-term political stability.

The Karachi Stock Exchange lists about 650 companies with a combined value of about US$12bn. About one third of all companies are in textiles, Pakistan's biggest industry. Settlement takes place on Mondays, with at least seven days break between trading and settlement, a period which runs to a maximum of 13 days. The cumbersome trading and settlement procedures give rise to complaints of brokers mis-pricing trades and of insider trading. Foreign investors are free to buy up to 100 per cent of any stock. There is no tax on stock market capital gains and no restrictions on the repatriation of profits.

Sri Lanka has been carrying out market-oriented reforms since the end of socialist-inspired policies in the mid-1970s. Thanks to its relatively small size, it has become by far the most internationally-oriented economy in south Asia, with exports accounting for about one third of GDP. Foreigners account for half the trading on the Colombo Stock Exchange. Shares rose rapidly last year in spite of the assassinations of an opposition leader and of former president Mr Ranasinghe Premadasa and an escalation in the civil war with Tamil separatists in the north. Investors are impressed that none of these events seemed to disturb the country's political stability.

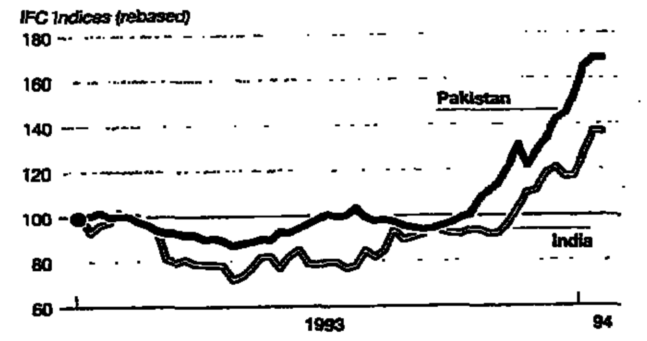
There are no limits on foreign shareholdings in Sri Lankan companies, with the exception of banks and a few other companies regarded as strategically-important.

There is no capital gains tax on stock investment profits, but investors who make a business of buying and selling shares in Sri Lanka might be liable for income tax (if they are individuals) and corporate tax (if companies). There are no restrictions on repatriating profits.

The Colombo Stock Exchange is fully computerised and a model of efficiency in south Asia. Settlement takes place in five days for buyers and seven days for sellers. There are 201 listed companies with a total market value of just under US$3bn.

Stefan Wagstyl in New Delhi with contributions from **Farhan Bokhari** in Karachi and **Mervyn de Silva** in Colombo

Pakistan and India



Source: Datastream

Stock markets – November 1993

Country	Market capitalisation ($m)*	Average daily volume ($m)	No of shares traded (m)
Argentina	31,815.75	42.22	454.04
Brazil	95,490.45	178.96	984,020.75
Chile	39,319.18	14.19	n.a.
China	42,836.67	308.36	4,362.06
Colombia	7,670.65	4.71	224.76
Greece	10,844.32	11.51	29.78
India	89,945.39	126.875	540.34
Indonesia	28,875.05	56.29	501.86
Korea	129,949.99	1,190.95	1,257.69
Malaysia	186,063.33	667.18	8,081.60
Mexico	168,685.25	469.84	2,887.23
Nigeria	1,074.25	0.03	8.59
Pakistan	9,322.02	17.11	220.32
Peru	4,578.83	9.26	83.15
Philippines	26,048.71	55.82	71,926.56
Portugal	12,039.58	24.48	34.02
Sri Lanka	2,346.42	3.65	69.05
Taiwan	132,185.55	1,284.83	19,289.00
Thailand	94,752.94	606.64	4,434.49
Turkey	34,237.31	137.39	5,137.55
Venezuela	6,179.47	6.45	249.01
Zimbabwe	1,185.18	0.48	50.52

* November 30, 1993 — Source: International Finance Corporation

EMERGING EQUITY MARKETS

LATIN AMERICA

The markets are viewed as being less frothy than they were a couple of years ago, writes **Stephen Fidler**

Great expectations reinforced

If 1993 was the year of Asia's emerging stock markets, many investment analysts believe the attention of international investors will swing more towards Latin America in 1994.

These expectations were reinforced in January, when many investors apparently took profits on their sizeable gains in Asia last year, to build up their exposure to Latin America.

Mr Michael Howell, investment strategist at Baring Securities in London, estimates that close to $40bn in new funds swept into the emerging stock markets last year. Of this 60 per cent went to Asia and 20 per cent to Latin America.

The Latin American share of the total fell from about 60 per cent in 1992 and 80 per cent in 1991. Mr Howell believes that international investors will allocate a higher percentage in 1994 to Latin America, which – along with rising commodity prices – should support the region's markets.

What happened in 1993 was that US institutional investors – whose interest in the emerging markets had been almost exclusively concentrated on Latin America – woke up to the Asian markets and rapidly increased their exposure.

In 1994, some strategists are expecting UK institutional investors to wake up to Latin America.

Susanne Carrington, manager of Latin American funds at Flemings Investment Management, says that the passage of the North American Free Trade Agreement in November last year triggered an important change in UK investor attitudes.

"Nafta has been incredibly important for focusing people's attention on the whole region," she said.

Furthermore, the continuation and deepening of economic reform have impressed investors, and markets are viewed now as being less frothy than they were a couple of years ago.

Growth in the region should average 3 per cent this year (3.4 per cent excluding Brazil), according to the latest forecasts from the London-based Consensus Economics, compared with 3.5 per cent last year.

Still, investors have their problems across the region. Front-running – where brokers fulfil their own orders before those of clients and insider dealing – is common. "It's a real problem," said one equity analyst, who also said there was a perception that the Mexican market had improved in this respect over the past year.

Many companies in the region are run by families who remain unwilling to cede control to outside investors. This means some companies are positively unhelpful about providing information. This is changing in Mexico, where disclosure is improving all the time, but in many other markets remains an important issue.

The Venezuelan market gets the wooden spoon for being the most difficult market in which to deal: settlement and custody are usually problems.

Of Venezuela, Ms Carrington of Flemings says: "There's only one stock that I'll buy in the local market."

Such difficulties – and other factors, such as Chile's restrictions on sale of stock and a 35 per cent withholding tax – drive many investors into the New York market for ADRs.

Nonetheless, some investors think these ADRs show a strong correlation with the New York market and are therefore not completely satisfactory for the purpose of diversification.

The biggest question about Latin American stock markets is: how long can the current inflows continue?

More specifically: what will happen when US interest rates – the low levels of which have had a big impact in encouraging the flows of funds to emerging markets – take a decisive turn upwards?

Many strategists think the flow of funds – assuming continued economic and political stability in the region's key markets – will continue, though perhaps at a lower level, while investors build up their holdings to desired levels. There has, say some analysts, been a step-change in institutional investor attitudes to the region's stock markets which should sustain flows.

Mr Roger Palmer, director of emerging markets at Kleinwort Benson Securities in London, says the money flowing into mutual funds in the US – currently important investors in Latin America – would not slow the moment that US interest rates turned upwards. Furthermore, even if interest rates turned high enough to tempt holders of mutual funds back into bank deposits, certificates of deposits and the like, the growing interest of pension funds and other institutional investors should help to sustain a continued flow of funds for some time.

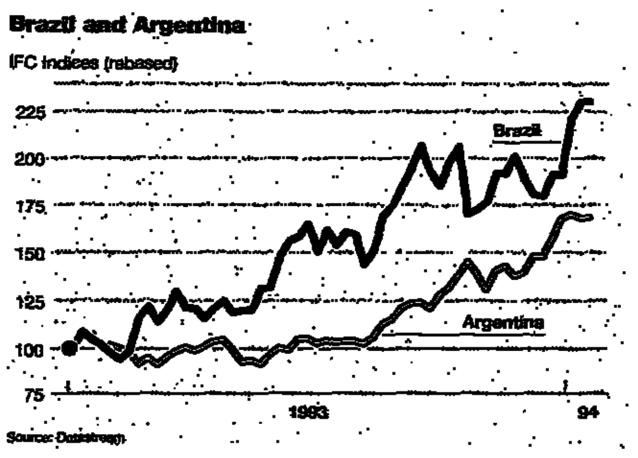
■ BRAZIL

Stock market soars to dizzy heights

When a stock market doubles in a year in US dollar terms, then rises a further 40 per cent in the first few weeks of January, warning bells usually get drowned out by the alarms.

But in Brazil, where just such a dizzying rise has occurred, things often happen differently and there is still no consensus on whether the market has been overbought. "Judging by historic Brazilian standards stocks are now expensive. But compared to foreign markets, where most of the new money is coming from, it's still cheap," one local broker claimed.

Brazil and Argentina

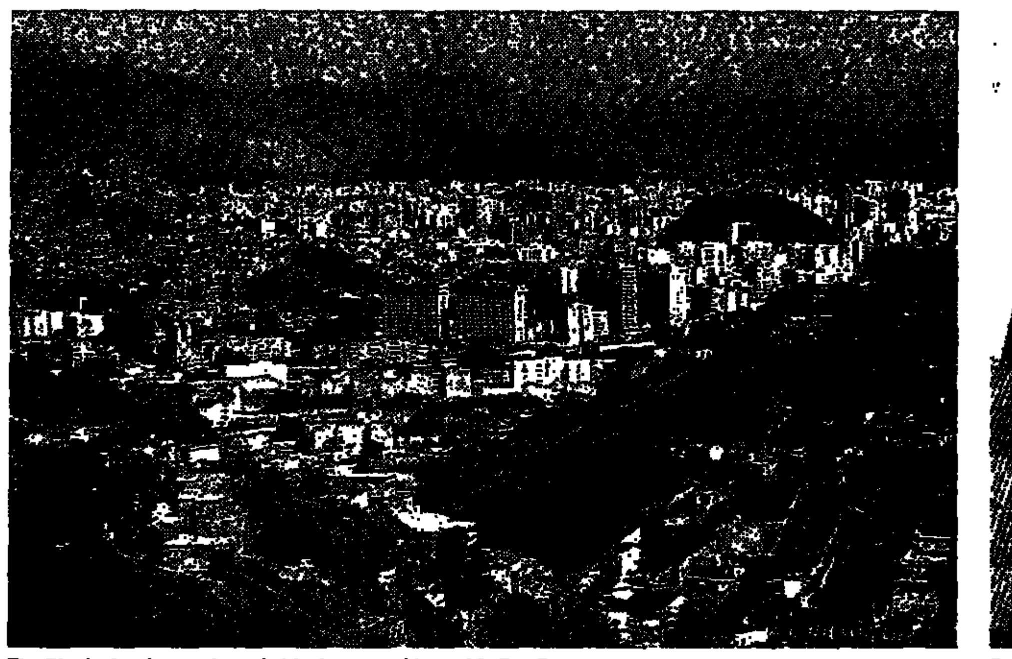


Source: Datastream

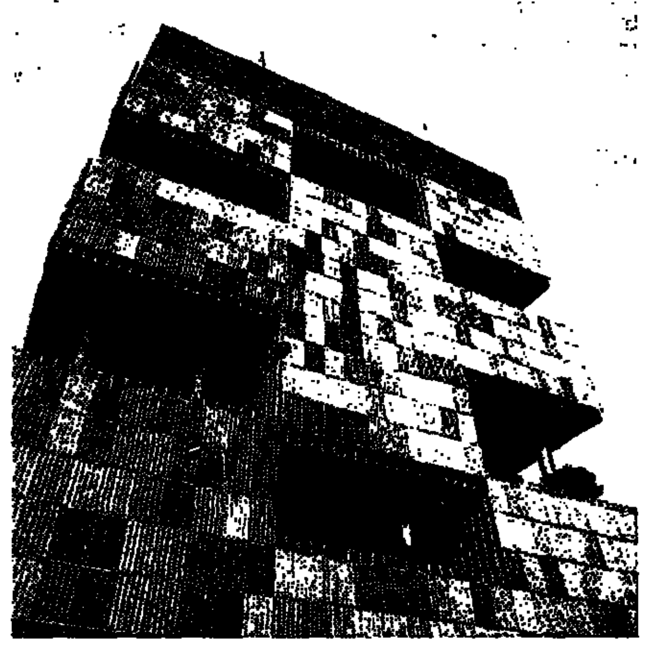
Of Brazil's nine stock markets, the Sao Paulo exchange accounts for about 65-70 per cent of trading and is the most modern. Rio de Janeiro accounts for most of the remaining volume. Sao Paulo's main Bovespa index, which tracks the market's 54 largest companies by capitalisation, has gained about 180 per cent in dollar terms in the past 12 months. But, as an indication of the market's volatility, the index has only recently returned to its 1986 level and there have been months in between when it has moved 40 per cent either way.

What has driven the latest rally has been an expectation that the government's economic "shock" plan will bring inflation sharply down from last year's annualised rate of 2,500 per cent. Foreign money has been flooding into Brazil, partly in anticipation of the plan and partly reflecting the worldwide trend towards emerging markets. Finally, there is evidence the private sector is at last becoming more competitive and less reliant on an interventionist state.

Foreign holdings more than doubled last year, according to the Sao Paulo exchange, from 8 per cent to 19 per cent of the market's value. The inflow has continued with central bank figures suggesting about $260m of foreign investment flowed into exchanges in the first two weeks of January alone, a record start to the year.



The Rio de Janeiro stock market is the second largest in Brazil



Petrobrás building: a key holding in any Brazilian portfolio

These investors face a problem, however. There are comparatively few large and liquid Brazilian companies quoted. Meanwhile, a poor but improving level of corporate disclosure among smaller second line companies means the race for stock has made the well known shares very expensive.

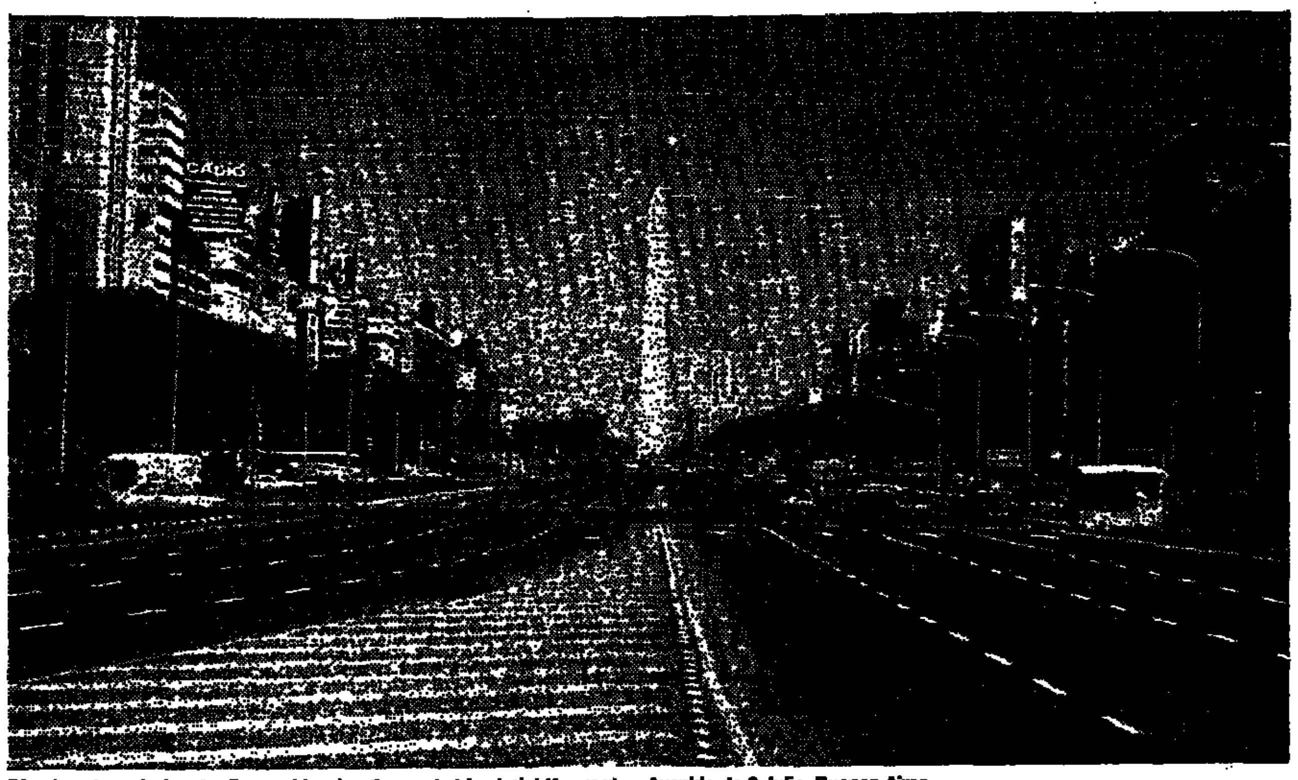
The government-controlled oil company Petrobrás, for example, which is Brazil's largest company in terms of turnover, is a key holding in any portfolio. But its shares added 40 per cent in just five days' trading at the start of January, before falling back slightly.

Orders in Sao Paulo and Rio can be executed through open outcry or through one of the two exchange's real time screen systems. All trades are monitored by the exchanges, which have a reasonable supervisory reputation among foreign investors.

Physical settlement is due on the first working day after the trade and financial settlement is made on the second working day. Sao Paulo's clearing house, known as Calispa, also guarantees settlement through its Operations Settlement Fund. Rio has the same regulations, although its Custody and Settlement Chamber is independent and profit-making. Commission fees due to brokerages vary according to transaction size, while there is a fixed 0.05 per cent transaction fee levied on every trade.

Most foreign portfolio investment, is made under Annex 4 of the March 1987 investment resolution 1289. This allows direct foreign investment as long as funds are not used to acquire control of local companies and a Brazilian administrator is appointed. Foreigners are not subject to capital gains or corporate income tax. Withholding tax on dividends is 15 per cent.

Angus Foster



Direct route: entering, trading and leaving the market is straightforward... Avenida de 9 Julio, Buenos Aires

The Buenos Aires Stock Exchange's market capitalisation has doubled in less than a year, through rising share prices and the flotation of big utilities

■ ARGENTINA

Lenient but lopsided

Argentina now has one of the world's most open and least-regulated financial markets. This, plus a fast-growing economy and the pegging of the peso at par to the dollar, has drawn flight capital back to Argentina and attracted genuinely foreign money into the equity, debt and banking systems.

The government has removed nearly all investment barriers, to encourage development of the capital markets and finance economic growth. The Argentine economy has grown by over a quarter since reform began in earnest in 1991, and is expected to expand at 5-6 per cent a year for the next six years.

The Buenos Aires Stock Exchange's market capitalisation has doubled in less than a year to over $33bn, the result both of rising share prices and flotation of big privatised utilities. Most analysts expect prices to continue rising, though perhaps not at the same rate as last year's 36.5 per cent rise in the Merval market index. They forecast above-average growth for sectors like construction, food, energy, cars and banking.

Entering, trading and leaving the market is straightforward. Argentina has no exchange controls. Investors need not register with the government. Brokers' commissions are not fixed, and vary between 0.5 and 1 per cent, plus a 0.12 per cent stock exchange levy. Capital gains and dividends are not taxed. There is no stamp duty. Companies are not subject to foreign ownership limits. No sectors are closed to foreigners.

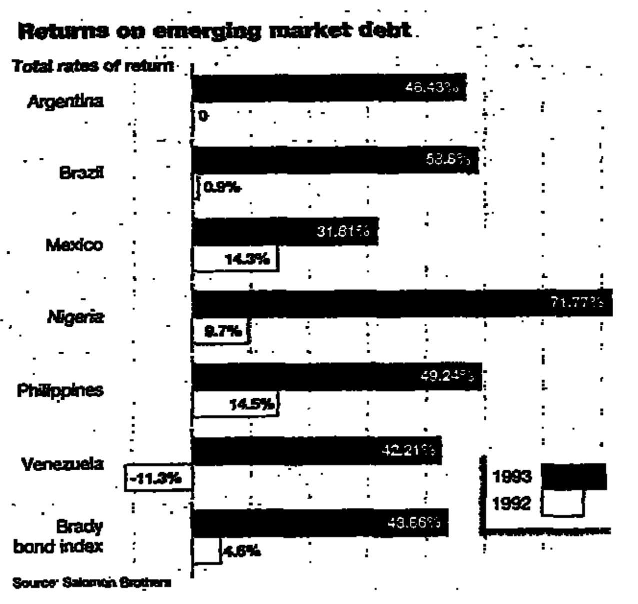
Settlement and custody is handled by the exchange's computerised Caja de Valores settlement system. Users say it is reliable and cheap.

Although most investors obviously like light regulation, there is concern that the market's existing insider trading, disclosure and reporting rules are poorly enforced. The *Comision Nacional de Valores*, the capital markets watchdog, rejects the complaints and points to substantially increased fines for offences and more aggressive policing.

The market may have grown strongly, but it is still heavily lopsided: five stocks account for three-quarters of market capitalisation. There are no marketmakers, so liquidity in all but the largest companies is limited. The bulk of trading in the largest stocks, such as the semi-privatised oil company YPF or the two privatised telephone operators, has moved to New York, where they are listed in ADR form.

Although a dozen companies have listed since the market took off three years ago, just as many have delisted. Most of the departing companies were small and illiquid, with small floats. The listing of big privatisation stocks and a few private industrial companies, such as the carmaker Sevel (licensee of Peugeot and Fiat) and fast-growing Pepsi bottler Baesa, has made the market increasingly representative of the economy.

Most companies are majority-owned by families, and still prefer raising debt to selling equity. Hyperinflation virtually eliminated debt, leaving companies room to borrow. This may change as gearing reaches international levels, forcing owners to choose between listing, merging or selling to larger competitors.

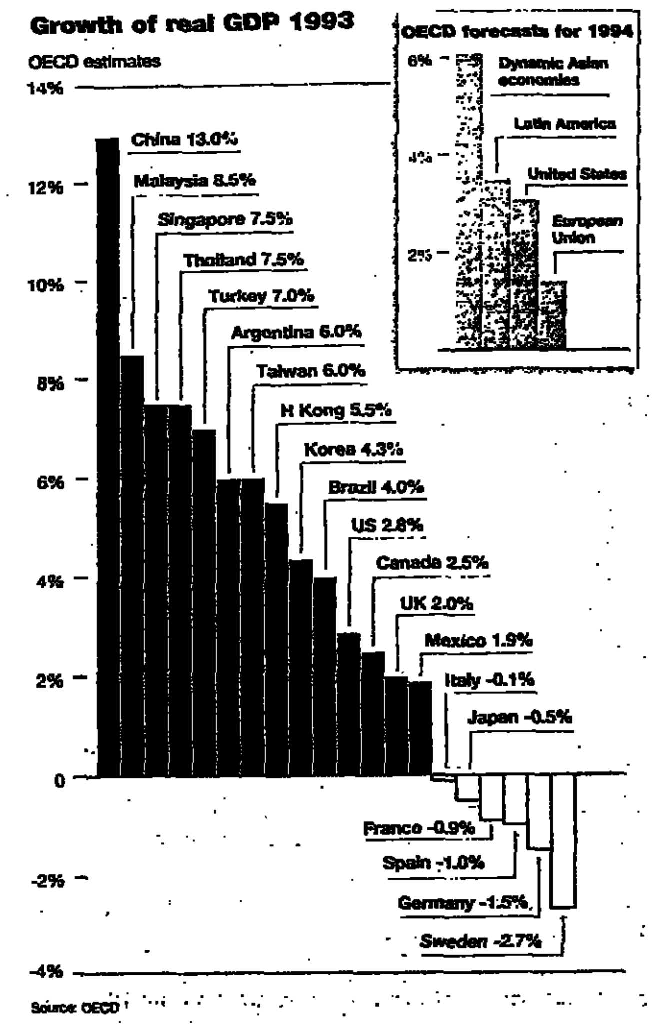


The lure of equity may increase with the launch in July of private pension funds. At the moment, institutional investors are conspicuous by their absence. Foreign investment funds and institutional investors are increasingly important. Deregulation makes it hard to measure the foreign presence, but foreigners probably account for 20-30 per cent of the market float.

Political risk is considered small. President Carlos Menem's decisive handling of rioting in December calmed investors' nerves. Devaluation before next year's presidential elections is ruled out by most analysts. Mr Menem – who wants to lift the constitution's ban on re-election and stand for a second term – appears too committed to reform to backtrack.

Economy minister Domingo Cavallo, the architect of Argentina's reforms, is entrenched in power. However, commitment to reform still does not extend much beyond the economy ministry or the Casa Rosada presidential palace.

John Barham



■ CHILE

New sparkle to market image

The Chilean stock market has, for the moment at least, shaken off its image as being "safe but dull" after a year-end surge compensated for months of sluggish activity, producing real annual gains of 50 per cent on the IPSA selective price index.

More than 18 per cent of that rise came in December alone as traders reacted positively to firm economic indicators, smooth presidential elections and the upgrading of Chile's risk rating by Standard & Poor's to triple B plus, the highest in Latin America.

That new-found confidence, also spurred by hopes of an early free trade agreement with the US, has been sustained in 1994. Daily volumes, at $20m-$30m, remain high by Santiago standards and by mid-January the IPSA had already posted gains of more than 10 per cent.

Market capitalisation is now approaching $50bn, compared with Chile's gross domestic product of around $40bn. Of this, $1.55bn is held by foreigners through 17 registered funds, one way of by-passing foreign investment regulations which prohibit the repatriation of capital for one year. Investments through registered funds pay capital gains tax of 10 per cent.

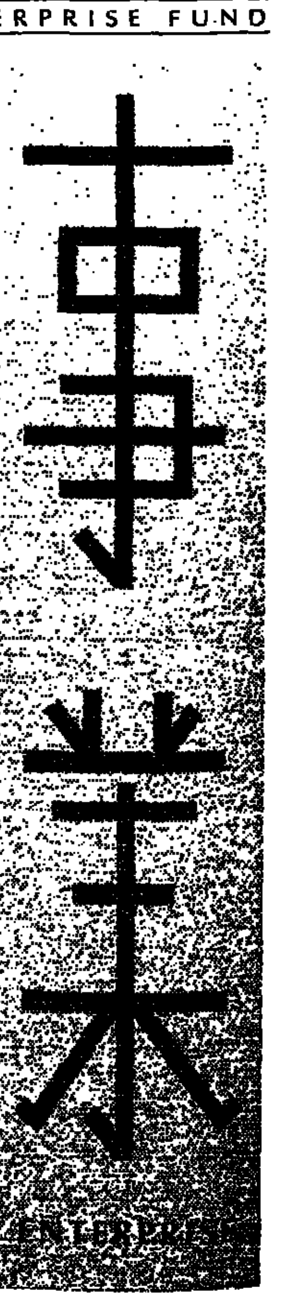
An increasingly popular way of investing in Chilean stock is through the purchase of American Depositary Receipts on the New York exchange. Eight Chilean companies, all of which have overcome rigorous guidelines laid down by Chile's central bank, have issued ADRs. Chilean paper is heavily sought after, though a further 12 companies are planning issues this year.

The Santiago exchange, underpinned by private pension funds (AFPs) which have accumulated around $15bn since the early 1980s, is one of the most solid and best run in Latin America. Trading, more than 30 per cent of which takes place on an electronic bolsa where transactions are instantaneous, is regulated by the securities and exchange commission.

The commission has the power to investigate unusual share price movements, which it can refer to court where necessary. Mr Michael Harcombe, a Kleinwort Benson representative in Santiago, says: "The way things operate here is fairly close to how a market would work in any European capital, only on a smaller scale."

New capital markets reform, which has been dragging its way through congress for the past year, should tighten up regulations still further. Among proposed reforms are measures to discourage the sometimes incestuous relationships between large companies and powerful institutional investors.

David Pilling



■ VENEZUELA

All eyes on new president after a roller-coaster year

In many respects, 1993 was another bad year for the Venezuelan equities market. After three years of strong growth, the economy of this South American oil exporter went into a recession in 1993, and inflation rose to 46 per cent.

The country continued to suffer political instability, including the removal of a president to face corruption charges, a series of terrorist bombs in Caracas, and recurring rumours of a coup d'etat. (There had been two frustrated coups in 1992.)

Added to this was the uncertainty associated with elections, held last December, to choose a new president and national and state legislatures. Moreover, Venezuelan equities had to compete with high real interest rates that could provide holders of savings accounts with a 30 per cent return in dollar terms.

As a result of all this, the Caracas Stock Exchange index had fallen in real terms by 17.5 per cent at the end of a roller-coaster year. (Nominally, the index rose by 10.2 per cent.) This was a far cry from 1990, when the Caracas exchange posted the world's highest gain in dollar terms.

Trading activity in shares, as measured by the number of operations, rose by 11.2 per cent to over 165,000 trades; but trading volume in dollar terms dropped by over 28 per cent, to $1.85bn, according to figures released by the exchange.

The Venezuelan bolivar lost 25 per cent of its value last year against the dollar. Trading remained highly concentrated, with 10 issues out of 157 companies listed (up from 139 companies in 1992) accounting for 85 per cent of shares traded. These 10 issues are: La Electricidad de Caracas (the most active stock), Mantex, Vencemos (Class I), Banco Union, Sudamtex (Class B), Mavesa, Sivensa, Sudamtex (Class A), Banco Occidental de Descuento and Venaseta (Class A).

Despite all this, some issues did very well. "Investors who picked up blue chips on dips were treated to very large gains," wrote Mr Alex Dalmady, editor of InvestAnalysis Stock Guide.

"The market was very volatile during the year, reversing trends about a dozen times. High interest rates made sharp rallies, since the opportunity cost of holding a stock that wasn't rising (or wasn't rising fast enough) became unbearable. Trend-following traders, expecting powerful rallies, got burned time in and time out. The contrarians, who bought when nobody wanted stocks and who sold when everyone was in the market, raked in profits."

According to Mr Dalmady, the top five performers in 1993, with overall gains in dollar terms, were:
Corimon, a diversified industrial group (+107.6 per cent);
Proagro, an agribusiness company (+106 per cent);
Venepal (Class B), a papermaker (+49 per cent);
Vencemos Class I, a cement company (+43.6 per cent);
Electricidad de Caracas, a utility (+33.7 per cent).

The five worst performers in 1993 of the 51 issues analysed by InvestAnalysis were:
Tordisca (−65.6 per cent);
Bancor (−66.8 per cent);
Grupo Zuliano (−68.7 per cent);
Inverdica (−71.5 per cent);
and Torvenca (−77.8 per cent)

> The country continued to suffer political instability, including the removal of a president to face corruption charges, a series of terrorist bombs in Caracas, and recurring rumours of a coup d'etat

During 1993, the Caracas exchange attracted a significant number of foreign investors, who had been absent from the Venezuelan equities market since 1992.

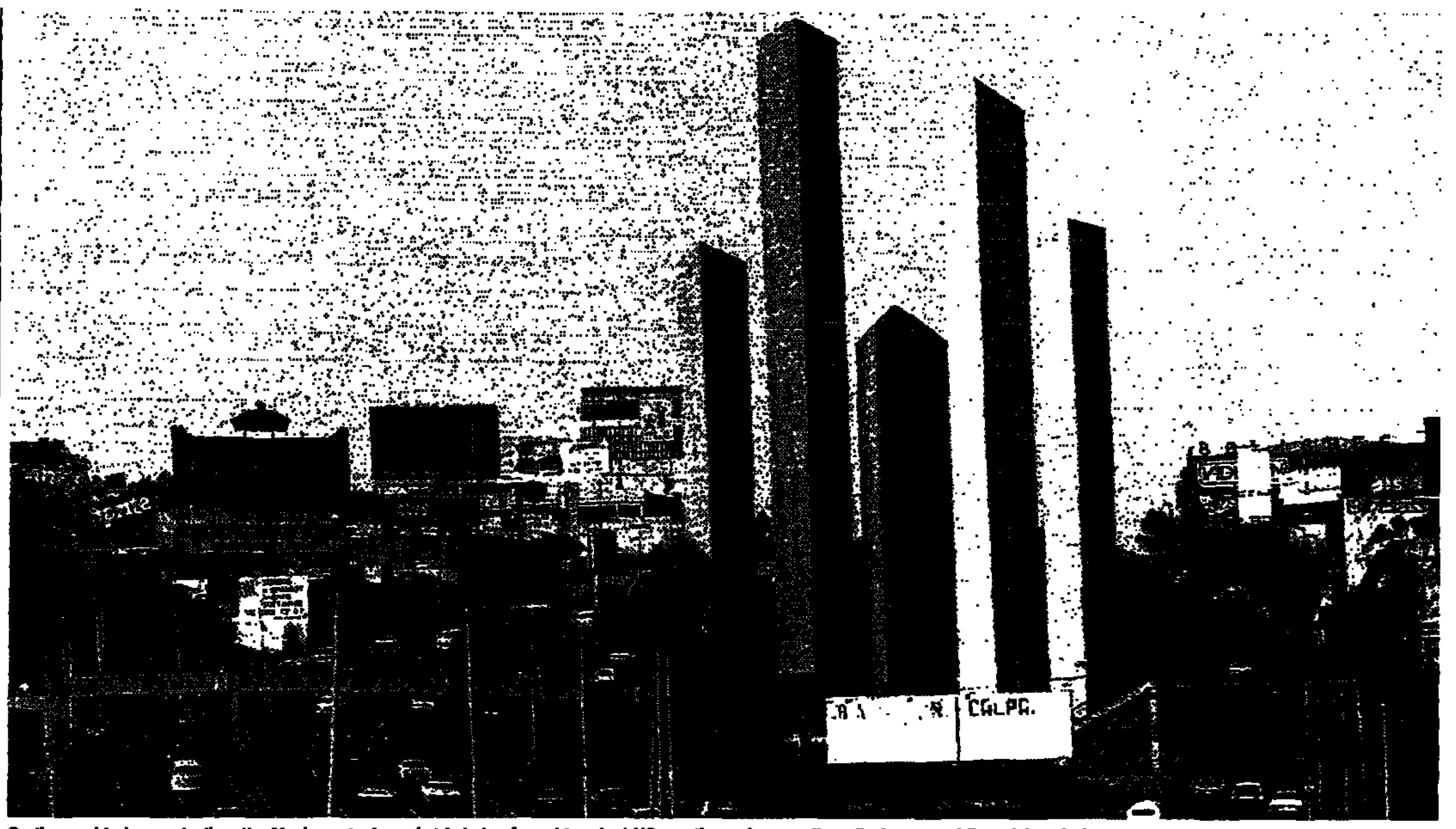
Moreover, the exchange improved the efficiency of its operations, increased automation, and was managed in a more professional manner than in previous years.

At present, the economic outlook for 1994 is poor. The economy continues to be in recession, and inflation is rising. The failure of a large commercial bank (Banco Latino) in mid-January has sent shock waves through Venezuela's financial system. Most Venezuelans, battered by inflation over the past few years, say they want to abolish market reforms initiated in 1989.

Investors are waiting to see how the new president, Mr Rafael Caldera, who has just started a five-year term, will confront these problems.

A 78-year-old politician, who served as president from 1969 to 1974, Mr Caldera took a strong line against market reforms during his presidential campaign last year. But as inauguration days drew nearer, he and his advisers indicated that, while the country's free-market policies will be altered, they will not be scrapped.

Joseph Mann



On the road to harmonisation: the Mexican stock market is being forced to adopt US practices of accounting, disclosure and financial analysis

■ MEXICO

Edging closer to US standards

Mexico's financial convergence with the US is forcing its stock market to adopt US practices of accounting, disclosure and financial analysis. The result is the most sophisticated and liquid emerging market in Latin America, but one which can still spring surprises for ill-prepared investors.

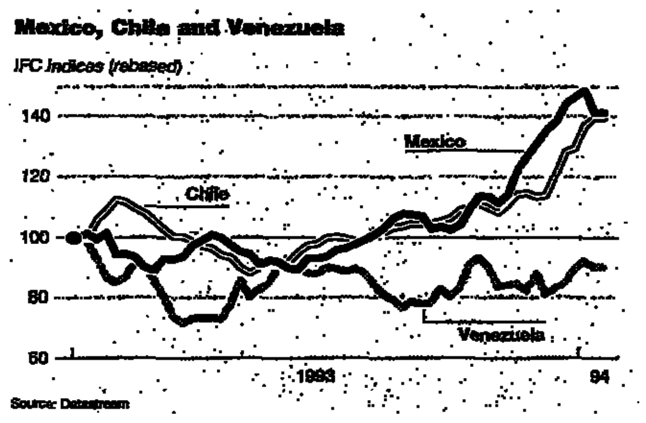
The financial integration, which is expected to intensify with implementation of the North American Free Trade Agreement, is having a profound impact on the way Mexican companies manage their businesses. Companies that used to be controlled by one or two families, and could afford to ignore outside shareholders, are now keeping in touch with domestic and international investors, and are highly sensitive to their criticisms.

However, the harmonisation is far from complete, and the Mexican bolsa is much more volatile than that of a typically mature market. As was demonstrated at the time of the New Year uprising in the state of Chiapas, daily movements of 5 per cent are not uncommon.

For many companies, liaison with investors is already as close as that of the US. "There is a huge dichotomy between the highly sophisticated Mexican companies quoted on the New York Stock Exchange and what is happening in the economy as a whole where average incomes are only $4,000 per capita," says Mr Timothy Heyman of Baring Securities in Mexico City.

The main pressure for change has come from Mexican companies that have raised capital internationally, and have sought listings in the US. To attract foreign money, these companies have had to adopt US rules of disclosure, and to accept US focus on short-term earnings performance. American Depositary Receipts (ADRs) of practically every large Mexican company are now traded in New York, while a growing number of Mexican companies enjoy full listing on the New York Stock Exchange – including Telmex, Vitro, Televisa, Dina, ICA, Radio Centro.

Mexico, Chile and Venezuela



Source: Datastream

While some companies have managed the change fairly painlessly, others have found it difficult. Many barely conceal irritation at having to answer to a group of foreign analysts who often show little understanding of the cultural differences between the US and Mexico. Foreigners in turn are still critical about lack of timely information, insider trading, and poor management of investor relations.

Foreign investors criticised Cementos Mexicanos, the cement company, for not warning investors it intended to use money from an equity offering to buy two Spanish cement companies, Sanson and Valenciana. Cemex says at the time of the offering it was not planning to buy the companies.

Telmex, the largest quoted company in Mexico, is one of the few US-quoted companies without a professional firm of public relations, and occasionally its management's inexperience has created difficulties with international investors. At a conference in New York last June, the company finance director caused the Telmex stock price to tumble after making what he thought were innocuous remarks about low earnings prospects.

Investors also complain that information about a company often reaches some participants before others. Mexico's stock market watchdog tightened rules on insider trading last year. It says that it is investigating several cases of participants using privileged information for gain.

"Mexico has the problem of every emerging market. There exists the ability to acquire information ahead of public announcements," says Jeremy Campbell-Lamerton, managing director of the London branch of Inverlat, a Mexican broker.

Most fund managers in Mexico are also stockbrokers, and investors have complained that they shuffle money between mutual funds they run and the stockbrokers' own accounts to the disadvantage of some clients. "When you are the operator, distributor, evaluator and seller of the fund there is a conflict of interest," says Mr Carlos de Laborde, general director of Covap, Mexico's largest mutual fund reviewer.

The government last December passed new regulations that make it more difficult for fund mangers to buy and sell shares for a mutual fund at less or more than the true market value. Covap, which is an independent body, now evaluates about 140 of the 230 mutual funds in Mexico.

Mexico is slowly moving to US accounting standards, says Jorge Mariscal of Goldman Sachs. The latest example is the decision of banks to adopt US rules of evaluating goodwill. Mr Mariscal expects eventually there will be few important accounting differences between the two countries.

While Mexican accounting can confuse Americans by expressing numbers in constant terms (i.e., eliminating the effect of inflation), this is becoming less important as Mexican inflation falls to US levels. Eventually, Mexico is expected to abandon inflation accounting.

For Mexico, the cost of harmonisation with the US is that it is losing control of its own capital markets. Because dealing costs are lower in the US than in Mexico, and liquidity of trading often higher in the US than in Mexico, many foreign investors prefer to buy stocks in New York.

The research on Mexican companies by foreign brokerages is considered better than that published by Mexican brokerages, although this is gradually changing. In a recent Institutional Investor poll of foreign money managers, no Mexican broker was among the top five researchers of their own country's markets.

Damian Fraser

Emerging markets total return – 1993

	%
Baring E.M. Index	70.81
Asia	101.40
Europe	69.20
Latin America	51.93
Argentina	57.96
Brazil	83.50
Chile	38.92
Greece	28.00
Indonesia	78.67
Korea	26.03
Malaysia	102.51
Mexico	39.87
Philippines	165.18
Portugal	38.90
Taiwan	103.98
Thailand	121.27
Turkey	215.84

Source: Baring Securities

EMERGING EQUITY MARKETS

EUROPE

■ EASTERN EUROPE

Creating capitalism without capital

Nowhere is the term "emerging market" more apposite than in central Europe where markets of all kinds have emerged over the past two or three years from what President Lech Walesa of Poland once called the "fish soup" of a command economy – a system with no place for markets, or real money or economic logic.

The speed with which commodity and financial markets alike have gained in size, scope and efficiency has been phenomenal, certainly as dramatic as the equally under-appreciated structural changes in the economies of the region.

Leading the pack have been the "fast track" reforming economies of central Europe, the Czech republic, Hungary, Poland and, to a lesser extent, Slovakia, with the addition of Slovenia – and Estonia, the first of the former Soviet states to establish a viable currency.

Whole swathes of the economies of the fast-track reformers – including politically sensitive heavy industries such as steel making and mining – have been scaled back, leading to heavy unemployment which the fast-growing private sector emerging from local entrepreneurship and foreign investment has been able only partially to prevent turning politically dangerous.

As a general rule, markets have developed *pari passu* with privatisation, although in the specific case of financial markets, with a certain delay due to the time needed to train staff in the hitherto arcane arts of buying, selling and valuing securities and for putting in place the necessary physical equipment, from security printing of share certificates to stock exchange screens.

The speed with which commodity and financial markets alike have gained in size, scope and efficiency has been phenomenal

But 1993 saw emerging financial markets come into their own. First Warsaw, then Prague and then, with greater caution, Budapest, experienced extraordinary stock market booms as a wall of local and foreign investment hit fledgling markets with their tiny lists of quoted stocks.

The boom on the Warsaw Stock Exchange (WSE), the star performer on world stock markets last year, was sparked off by a sharp fall in the interest paid on local bank deposits in the first half of the year. As Poles cautiously at first, and then with abandon, piled into the 22 stocks quoted on the electronic board in the former communist party central committee building in central Warsaw, the rising tide of share prices attracted the attention of a handful of western investors. Among the first in were veterans of other emerging markets in Asia and Latin America such as Salomon Brothers and J P Morgan, and the Boston-based Pioneer Group, which set up the Pioneer First Polish Trust Fund and invested heavily in the fast rising market.

Lift-off began just after Easter and brought Warsaw's WIG index racing up from a 1993 low of 1,040 at the start of the year to 11,760 at the end of 1993. Convinced of the unsustainability of such a meteoric rise, which pushed p/e ratios into the high 30s in many cases, many foreign investors quietly took profits over the latter part of the year and waited for what could be a substantial market correction.

Such is the weight of local money, however, that shares have continued to find local buyers so the year started on a high note, although a sure proof of two-way trading was the way that trading was characterised by high volume rather than higher prices.

Significantly, Poland's new left-of-centre government has decided that a healthy stock market is too important to jeopardise by imposing punitive taxation or too many restrictions. Strapped for cash, and obliged by the IMF to keep the deficit around 4-5 per cent of GDP, the government is looking to a combination of mass privatisation and the flotation of the shares of selected state enterprises, especially the banks, to raise revenue.

The flotation late last year of 30.1 per cent of the shares in Bank Slaski, the second of nine state-owned commercial banks in line for privatisation, was massively over-subscribed with 800,000 would-be investors clamouring for six times more shares than actually on offer. The 500,000 zloty offer price is expected to more than triple when the banks' shares are first quoted in a few weeks. With existing shares at their present high level, investors are looking for a steady flow of reasonably priced Initial Public Offers (IPOs) to sustain their interest in the market.

While Warsaw was last year's star performer, however, Prague looks poised to take over the mantle this year. The success of the first round of mass privatisation has put most of the shares of the 1,300 companies into the hands of a dozen investment funds. The shares were offered at way below book value to the 8m citizens who took up the government's offer of privatisation vouchers costing $30. More than 70 per cent of voucher holders deposited them with the funds who have been busy building up significant, and in some cases controlling stakes, on their behalf. The funds are the biggest participants on the Prague scene, buying and selling shares both on and off the Prague Stock Exchange and the rival electronic over-the-counter R-M system.

While Warsaw was last year's star performer with the WIG index racing up to 11,760, Prague looks poised to take over the mantle this year

Marginally bigger than the Warsaw stock exchange, with 28 quoted stocks to Warsaw's 22, Prague also has a handful of very big companies. CEZ, the electricity utility company, is the biggest with an end-year market capitalisation of $2.7bn equivalent to the total capitalisation of the WSE. It is followed by the two biggest commercial banks, the Sporitelna and Komercni banks, and a couple of foreign-controlled companies, Tabak, the former state tobacco monopoly now controlled by Philip Morris, and Cokoladovny, controlled by Pepsi-Cola. With a further 800 companies at present being privatised in the second round of the mass privatisation scheme (MPP), and fund managers anxious to raise liquidity by issuing new equity, the Prague bourse seems set for a phase of rapid expansion in the years to come.

Somewhat ironically, Budapest, whose budding financial entrepreneurs were the first to set up a stock exchange, has been the least expansive stock market to date. Early investors suffered substantial paper losses on the initially overpriced first issues and several shares remain below 1992 levels in real terms in spite of the 50 per cent rise in the market over the last weeks of the year.

The relatively slow development of the Budapest bourse is largely conditioned by the fact that much privatisation has been through trade sales to foreign investors rather than mass privatisation schemes or stock market flotations. But, with elections looming in May, Hungary too is heading for a limited form of MPP as the realisation dawned on politicians that schemes which gave ordinary citizens a material stake in former state industries were politically popular.

Whatever the original motivation, however, the development of stock exchanges and other financial institutions such as pension funds, insurance companies and revamped, self-financing health insurance funds, is providing an answer to the basic question which hovered over post-communist Europe only four years ago – how to create capitalism without capital? The answer seems to be: through a combination of foreign investment and the mechanisms and markets needed to tap the domestic savings generated by rising income differentials and structural reforms which eliminate the wasteful and irrational old ways.

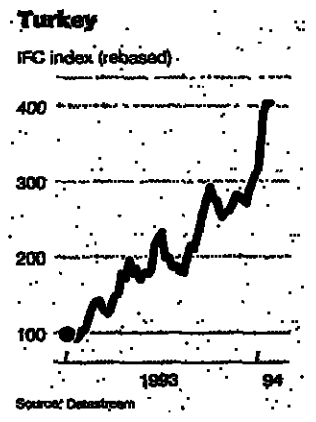
Anthony Robinson

■ TURKEY

Istanbul bounces to the top

After spending the whole of 1992 at the bottom of the table, Istanbul has risen over the past 14 months, to outperform all the world's emerging markets, according to the World Bank's International Finance Corporation. Thanks to robust retail demand, an expansionary fiscal and monetary policy and timely legal changes, giving tax breaks for those funds investing in equities, the 85-share index has been pushed to record heights.

The market lists some 150 companies, and is capitalised at around US$30bn. Daily trading volume is around $80m. The best performers are those companies with low debt and a strong franchise in the local market, such as Arcelik, the white goods manufacturer, local retailer Migros, or beer companies such as Ege Biracilik. Brokers say there has been a marked deepening in the market, with the arrival of foreign investors and more tentatively the local institutional buyers. But trading still suffers from a shortage of liquidity, a restrictive settlement system, and the lack of good research facilities.



For the bull market to continue, the government will have to contain its own appetite for funds which has had a damaging effect, not only crowding out the equity markets but undermining corporate profitability as borrowing costs have been pushed higher. Today, treasury bills and other official debt instruments still account for 80 per cent of capital market activity.

There also remains some concern about the permanence of the government's interest rate policy after the Central Bank last month was forced to devalue the lira by 12 per cent after raising interbank rates which at one time reached 200 per cent. If interest rates are to settle at these new levels, equities may find it harder to entice funds away from fixed interest instruments. This could force the small retail investor, who has provided much of the momentum of the bull market, to reconsider his portfolio options. For all that, there remains an underlying confidence in the market. Brokers point out that in dollar terms, the index still has some way to go to attain the levels enjoyed in the 1990 bull market, which lasted until the day Saddam Hussein's tanks rolled into Kuwait.

The market has made considerable strides, on the regulatory side and in improving settlement and clearance systems. Under the Turkish practice, on any transaction, the physical delivery of stock must be completed before the end of the following day. This is a direct result of Turkey's high inflation. It is also an attempt to encourage trading in larger volumes and take away some of the attractions of speculative dealing. But for foreign investors, particularly those dealing from far-flung markets such as Hong Kong, where there is a time difference, it can present a serious headache.

In an effort to ease this problem, the exchange has now introduced a new centralised custodian system which accounts for 70 per cent of transactions. In addition, a new electronic trading system was inaugurated in early December, on some 50 shares. The whole exchange shifts to screen-based system later this year when trading moves to its new premises.

The market's other constraints have more to do with Turkey's particularly conservative corporate culture, where equity finance remains a small part in the thinking of many companies. Private concerns are wary of the disclosure requirements and the dilution of ownership. However, all that may soon change.

Reforms have been introduced to allow companies to float non-voting shares. In addition, the new tax law included incentives for companies going public. Brokers anticipate a wave of new issues, as companies seek to rationalise the spread of their empires, ahead of the move to a customs union in 1995. Equity finance could also be useful as companies upgrade technologies, in a bid to keep pace with the renewed competition from imports.

The number of public offerings has already increased as banks seek to float subsidiaries in a bid to meet new capital requirements set by the Basle-based Bank of International Settlements. A less welcome prospect is that the market might be flooded with government stock as Turkey's privatisation speeds up. If only for political reasons, Turkey seems destined to offer some part of the state corporations now being considered for privatisation to local investors.

How well the market digests this will depend largely on whether big Turkish institutions are attracted. The fund managers of insurance companies and state enterprises have traditionally remained averse to risk, preferring government securities to dabbling in the more uncertain waters of the equity market. However, rule changes introduced in 1993, now make it easier for banks and brokerages to establish funds. The law also provides tax breaks for those A-type funds invested in equities. According to figures from the Capital Market Board, the government's securities watchdog, the government has approved 23 funds, with a further 13 under consideration.

It is still a relatively immature area. Many banks, for example, make use of funds they establish to buy stock in their own industrial affiliates. As one leading broker put it: "That's not fund management, that's price fixing."

But on one thing the brokerage community is agreed – this is the only way forward. For only with the ballast provided by long-term institutional investors, will Turkey's market attract fresh interest and enable the index to reach new heights.

John Murray Brown

Riding high: the 85-share index has been pushed to record heights in Istanbul

Farewell to the old: after 250 years, the Lisbon stock exchange moves into a sleek, new office block later this year

Picture: Ashley Ashwood

■ PORTUGAL

Lisbon shapes up for change

The Lisbon stock exchange will this year mark its 250th anniversary by moving out of the arched 18th century building where it began, into a sleek office block in the new financial centre taking shape on the outskirts of the city.

The change signals a coming of age for the exchange after putting into place sweeping operational and administrative changes that officials believe place Lisbon on the same efficiency level as the most advanced exchanges in Europe.

Recent reforms include the adoption of a continuous trading system, a computerised national stock registration house and a 700-section administrative law that governs insider trading, company disclosure rules and many other areas.

"The reforms have inspired new confidence in investors who have seen the exchange taking great strides towards becoming more efficient, transparent and well regulated," says Mr Jose Cardoso de Matos, director of marketing and organisation for the Lisbon bourse.

This confidence was a contributing factor to the positive performance of the exchange over the past year. Trading volume rose by 97 per cent to Es2,849bn ($16.2bn) in 1993 while the value of the market more than doubled to Es2,193bn.

It is true that bond trading accounted for 85 per cent of total volume while shares represented only 15 per cent. But share trading volume nevertheless rose 58 per cent on 1992 to Es417.9bn. The 183 companies quoted had a market capitalisation of Es2,193bn in December, 1993 compared with Es1,431bn a year earlier.

Share prices also increased substantially, with the Bolsa de Valores de Lisboa (BVL) share index rising 55 per cent in 1993 to a year-end high of 848.54. The index has continued to rise steadily this year, reaching 922.37 on January 24.

Sharply falling interest rates that made the return on bonds and bank deposit increasingly less attractive were the main reason behind the solid performance of shares in 1993. One-year bond rates fell to 10.5 per cent compared to 19 per cent two years earlier. Bank deposit rates dropped from 15 per cent to 7 per cent in less than a

Continued on next page

EMERGING EQUITY MARKETS

MIDDLE EAST

■ MIDDLE EAST

Magic carpet not ready for take-off

Equity markets in the Arab world are not yet in a position to offer a soaring magic carpet to international investors. The swathe of states from Morocco to Syria have no roaring economic "tigers" and there is as yet no golden prospect of a capitalist rebirth – though progress towards Middle East peace has quickened the pulse of many investors. Most countries remain in the very earliest stages of liberalising reforms which might eventually present profitable opportunities.

But the region is far from being an equity desert. Most states have stock markets of varying maturities and development – the exceptions being Libya, Syria, Yemen and, for the time being, Lebanon. And although most markets are either closed to foreign investors, or difficult to penetrate, international interest is rising. A survey by Kleiman International Consultants last November found that half of the 40 institutions it surveyed had holdings in Middle Eastern or North African markets in 1993, against just 7 per cent in 1990.

The trick, according to the growing number of institutions showing an interest in the region's generally pre-emerging markets, is careful picking and choosing. And while none of the region's markets makes it, for instance, into The Economist's new premiership league table of 24 markets to watch, investors have already begun to pick some regional leaders and laggards. Two markets, in particular, are already being singled out for particular attention.

Chief among these is Jordan's market. The Amman financial market, with more than 110 listed companies and capitalisation of JD3.5bn is among the region's most profitable and ably-run. Buoyed by two successive years of strong real economic growth, sustained government commitment to International Monetary Fund reforms, high liquidity and, most recently, by optimism over the peace process, the market's index rose by 30 per cent in 1992 and was a further 23 per cent up by the end of last year.

Although the government and its agencies hold substantial stakes in many Jordanian companies – notably in tourism and minerals companies – it is nevertheless among the most highly traded markets in the region. Mr Miles Morland, of Blakeney Consultants, one of the few Middle East market specialists, says at least half of total issued stock is tradeable – far higher than the regional average. As important, in Mr Morland's view, is the degree of local participation in the market, in which he estimates there are around 100,000 participants. Few if any Middle Eastern bourses can compare on that count.

Such buoyancy has attracted considerable outside interest, even though direct non-Arab participation in the market requires government approval – a procedure which can take months. Official figures suggest, however, that at least 15 per cent of the market is in non-Jordanian, mostly Gulf Arab, hands. Only 3-3 per cent is reckoned to be held by non-Arabs. But this should change given the degree of interest being shown by western institutions.

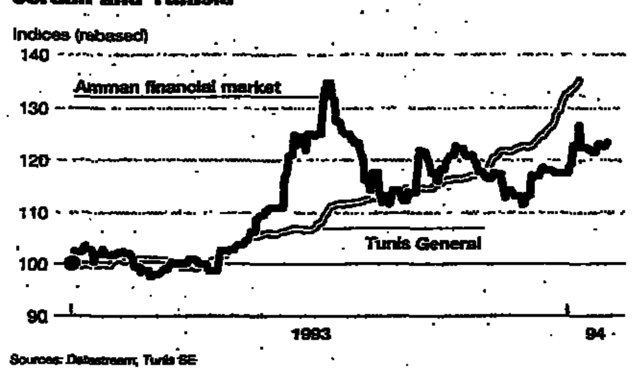
Ten leading institutions, including Lehman Brothers, Goldman Sachs, Baring Securities and Citicorp recently won approval from the prime minister's office to operate in the market and, according to Mr Dan Smaller of Lehmans, the market can expect "substantial" inward investment during 1994. "The peace process has taken away a big risk. Even if the details of peace take time to negotiate, the breakthrough has removed a big obstacle," he says, adding that he expects Lehman to commit up to $35m to the market during the first quarter of this year.

The second regional star performer is Morocco, where investors are impressed less by the maturity of the local stock market than by the government's clear and so far successful commitment to privatisation. The Casablanca bourse remains lethargic, suffering the common regional ailments of a shortage of scrip – only 69 companies are listed – and low liquidity. But this has not impeded a large influx of foreign capital into a privatisation programme which the government has been seeing through with untypical energy for the region. As Mr Morland remarks: "Privatisation is the key – because that's what forces governments to look at their stock markets."

After Jordan, Morocco was a star performer in the region

Last year the Moroccan government exceeded by 40 per cent its target of state asset sales, with total receipts hitting $250m. By the end of 1995 the government aims to have sold a further 112 companies or assets worth almost $2bn, and foreign buyers are being embraced. At the end of last year, for example, a French subsidiary of Holderbank bought a 51 per cent stake in CIOR, the state cement group in an offering which was five times oversubscribed. The sale last summer of CTM, a state transport group, also injected 40 per cent of its capital into the equity market, and analysts are confident that privatisation will substantially add to the supply of new scrip throughout 1994.

Jordan and Tunisia



Sources: Datastream, Tunis SE

Elsewhere in the region, however, prospects appear more mixed. In North Africa, Tunisia is seen as offering some opportunities, again because of the government's commitment to IMF-guided liberalisation policies and its equal desire to attract foreign capital. However, Tunisia's privatisation programme continues to move more cautiously than in Morocco, where some analysts also consider that the absence of any history of socialist administration is also giving Casablanca an enterprising edge.

Egypt is perhaps the greatest disappointment in the region. Although the government has made remarkable progress with broad macro-economic reforms under two years of IMF tutelage, its own privatisation programme has become heavily bogged down by a combination of bureaucratic inertia and profound government caution over the potential political effects of selling off large parts of the sprawling public sector.

The result has been to deprive Egypt's market of the new issues it requires to establish a properly liquid bourse – one which before the 1950s was the world's fifth busiest. Although more than 450 companies are technically listed on the exchange, no more than 35 or so are ever traded and Kidder Peabody includes only 24 of these on its market index as truly liquid stocks. These, according to Mr Aladdin Saba, vice-president of Kidder Peabody Egypt, represent a capitalisation of around E£1bn (US$297m).

Direct foreign participation is possible – though some companies retain a statutory ban on foreign ownership – and, according to Mr Saba, some foreign money has been entering the market over the past 18 months, mainly from the Gulf. The result has been to lift the Kidder index by more than 60 per cent over the past year. But, as Mr Saba concedes, this was from a low base.

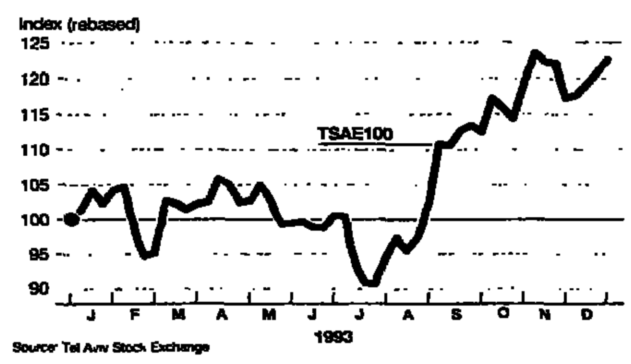
There is also some disappointment in the market over the new capital market regulations introduced last year, which abolished an historical imbalance in the taxation of dividends and bank deposits. Many consider the new rules, which also govern the creation of market intermediaries, remain too restrictive. "The government looked at these rules as a regulatory instrument, rather than as a business opportunity," says one market player, who believes Egypt is in danger of losing out to Jordan and other regional bourses.

Most markets are either closed to foreigners, or difficult to penetrate

For the time being, this excludes markets in the Gulf states, which remain closed to foreign investment. But this, too, may soon change. The biggest and healthiest Gulf market, in Saudi Arabia, boasts a capitalisation of around $50bn and vigorous trading. So far, however, the Saudi authorities have resisted any temptation to open their floorless and increasingly sophisticated market to foreign investors.

Other Gulf states, however, may prove less cautious. Oman and Bahrain, in particular, are already examining ways to open their small bourses. For Mr Morland and several other analysts, these markets may well be among the most interesting of 1994. Falling oil prices, diminishing state revenues and the attendant appeal of attracting foreign capital into non-oil industrial ventures might all spur a greater opening, Mr Morland suggests. "My guess is this is the year when these markets will begin to emerge," he says. Just this month, the government of the United Arab Emirates set up a cabinet committee to examine formalising and centralising its kerb share market. The committee is expected to consider from the outset the option of opening the market to international investors.

Israel



Source: Tel Aviv Stock Exchange

Another newcomer over the next year could be Syria, where a draft bill for the country's first stock exchange has been awaiting submission to the People's Assembly since last Spring. Informal share trading thrives in the Damascus souk and many businessmen in the country believe an official market is an inevitable concomitant to Syria's cautious economic liberalisation – though little financial infrastructure exists at present in what remains a highly centralised state-based economy.

But perhaps the most exciting prospect in the region lies in Lebanon, where the stock market has been closed since it was abandoned at the height of the civil war in 1983.

The successful offering to Lebanese and Arab investors in Solidere, the company established to rebuild downtown Beirut, has created the basis upon which the Lebanese government will restart what many in the region consider likely to be the Middle East's most promising market. Andersen Consultants in London are already working on creating the framework for a secondary market in the $1.8bn company's shares and the central bank says it hopes to see trading in up to eight companies' shares within eight months.

Few doubt the appeal of a resumed Lebanese stock market, which is likely to be open to outside capital. Those with the greatest faith in the inherent trading ability of the Lebanese predict the new market will be among the highest flyers in 1994/95.

Mark Nicholson and James Whittington

Lisbon shapes up for change

Continued from page 12

year. This compared less than favourably with earnings of around 20 per cent offered by share investment funds.

For the first time in the recent history of the Lisbon bourse, domestic investors, particularly pension, mutual and other investment funds, led the movement into shares from May, 1993. Foreign investors, who have previously dominated share rallies and still account for an estimated 30 per cent of total trading, followed closely in their footsteps.

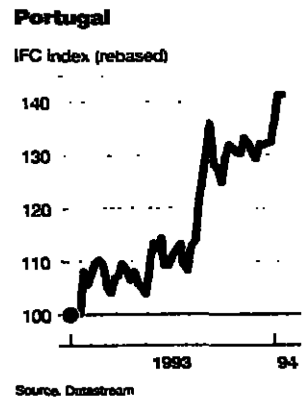
A second reason for Lisbon's strong performance in 1993 was the official listing of the exchange on the Morgan Stanley index of emerging markets, with a 5 per cent weighting.

"Lisbon had been trying unsuccessfully to establish itself as a developing but traditional European market," says Ms Elizabeth Rothfield, a director of sales and research with Lisbon-based independent stockbrokers Midas Investimento. "By becoming an emerging market, the bourse has attracted new investment from the growing number of emerging market funds launched mainly in the US and the UK."

Most analysts see continued growth for share prices in 1994, though it is unlikely to be as strong as last year. They are also agreed that a price correction is almost inevitable. "If share prices continue to climb over the next few months it is very likely there will be a spell of profit-taking that will set the index back," says Mr William Cunningham, a Lisbon-based partner with consultants Arthur Andersen.

Mr Joao Rendeiro, president of fund managers Gestifundo, forecasts that shares prices will rise between 20 to 30 per cent this year. He says industrial companies have the greatest potential for price gains, which could reach 100 per cent, while banks may show a 10 per cent fall in price. He sees

Portugal



Source: Datastream

Banco Comercial Portugues and Banco Portugues do Atlantico as the only positive exceptions in the banking sector.

Peter Wise

EMERGING EQUITY MARKETS

AFRICA

AFRICA

Continent of hazard and opportunity

Which of the world's emerging markets can boast an investment fund where a $1,000 stake a year ago has risen to nearly $1,500?

Surprisingly, the answer is Africa. Even more surprising, the country concerned is Nigeria, where the economic reform programme has collapsed – but a shrewd purchase of Nigerian debt is paying off for investors.

The New York-based International Asset Transactions decided in 1992 that Nigerian promissory notes (issued in the mid 1980s to clear $4.2bn in trade arrears) and par bonds (which discounted commercial bank debt at 40 cents to the dollar in a 1991 settlement with the London Club) were underpriced.

Gus Udo and Donna Young of IAT noted that servicing these deals cost Nigeria comparatively little – around 14 days a year of the country's 1.4m-barrel daily production of oil. They reckoned that no sensible government would alienate the banks and the trading houses by defaulting on the terms of the two settlements.

So, in January 1993 they launched the Nigeria Emerging Market Fund, an open-end mutual fund registered in the Cayman Islands, with about two thirds in Nigeria Central Bank promissory notes and most of the balance in Brady par bonds. The results have been remarkable.

Behind the general view that Africa's debt instruments are generally undervalued lies a fundamental reappraisal of the continent's prospects.

"Africa is poised for growth," declares Morgan Stanley, which has launched a $40m Africa Investment Fund. Its bullish 50-page appraisal of the continent argues that the economic and political reforms under way for the best part of a decade are coming good. Prices for the region's exports such as cocoa, coffee, gold are recovering, and industrial metals are bottoming.

Africa, argues the report, which includes a useful guide to the dozen stock markets operating and the 20 others being developed, "harbours undervalued assets, particularly in the natural resource and manufacturing sectors".

"Where stock markets are up and running," says Morgan Stanley, "investors can find attractively priced issues, both on a price-earnings and price-to-book basis."

By international standards the African market – excluding South Africa, which ranks just outside the world's top 10 – is tiny. Its exchanges have a combined market capitalisation of around $12bn compared to India's $91bn.

Nevertheless, the belief in the resurgence of Africa's fortunes, led by hopes for a thriving post apartheid South Africa, has caught the imagination of international fund managers.

Mr Miles Morland, of London-based Blakeney Management, calculates that at least $3bn of foreign money is being targeted at South Africa and a further $1bn at the rest of Africa in 1994: "Peanuts in Mexico or Hong Kong, but they are liable to blow the African market apart at the seams."

The total amount of stock available in the whole of Africa (excluding South Africa) is about $2.2bn, he reckons: "If almost half of this turns over in 1994, a huge increase on the 1993 levels, there will still only be $1bn of African equities to be fought over by local investors, global investors and all the new Africa funds."

The continent's heavyweight is South Africa. With a market capitalisation of some $150bn, South Africa is not so much an emerging market but a re-emerging market, comments Nigel Scheckter of Micropal, the Boston-based fund performance measurement service, which monitors 26,000 funds.

But "the true float is tiny relative to the wave of US guilt money that will elbow its way into the market this year," says Mr Morland.

Foreign buyers have already made their mark on Diagonal Street. Figures supplied by Baring Securities show that for the foreign investor, who benefited from a 13.3 per cent strengthing in the financial rand, the investment currency for overseas investors, the overall index rose by 63.4 per cent, the gold index by 184.1 per cent and the industrial index by 41 per cent.

"The market is the best one-way ticket I can think of, barring the 20 per cent bloodbath prospect" – a reference to fears that the April elections may trigger destabilising violence.

Elsewhere, Mr Morland singles out Ghana, a tiny market but likely to grow rapidly as the privatisation programme led by Ashanti Gold moves ahead, Zimbabwe, where foreign buying in the second half of 1993 helped more than double the industrial index, Morocco and Tunisia.

Is the excitement warranted, are the risks appreciated, and how well do the analysts know Africa?

Morgan Stanley's upbeat view of the continent does not overlook the problems – pointing among other things to weak management, and what it calls Africa's "fear and distrust of foreign business influence".

But the overall picture that emerges may strike some readers as too rosy. The assertion that "tribal tension in most of black Africa is probably less of a problem than racial tension in the US" may simply be an unorthodox view. More serious is the assertion that 28 of Africa's 50 states "have economic reform programmes in place".

This list is based, says Morgan Stanley, on World Bank evaluations – not always, it should be said, the best judge of its own reform efforts.

Some examples of reform listed by Morgan Stanley are risible – such as Zaire, where the political and economic malaise deepens by the day.

Also on the list is Burundi, where the recent coup (which took place after the report's publication) illustrates the volatility of the African condition. The inclusion of São Tomé, little more than a dot in the ocean, trivialises the list.

Nigeria – "a powerhouse waiting to happen", according to Morgan Stanley – "perseveres with its structural adjustment programme, launched in 1986", writes the analyst.

At the time the report was published (October 1993) it was clear that Nigeria's erratic attempt to implement the programme was the reason an IMF agreement lapsed some two years ago.

Any hopes that Nigeria's military regime would revive the lapsed programme were set back last month, when it fixed the exchange rate and local interest rates at unrealistic levels.

Africa's performance in general has been weak. As Professor Tony Hawkins of the University of Zimbabwe writes in a recent paper: "More than a dozen years after the launch of aid-funded structural adjustment programmes, it is impossible to identify a single mainland sub-Saharan country that has made a success of economic reform."

"The best that can be said," he continues, "is that in countries such as Ghana and Uganda, the spiral of decline has been reversed, but it will take well into the next century before earlier living standards are regained."

A somewhat tougher investment appraisal comes from the Meridien BIAO group which runs a network of banks in 20 countries across Africa, led by Andrew Sardanis and Colin Goodwin, two veteran Africa hands.

The investment climate is improving, says Colin Goodwin, president of the group, "but by nothing like enough.

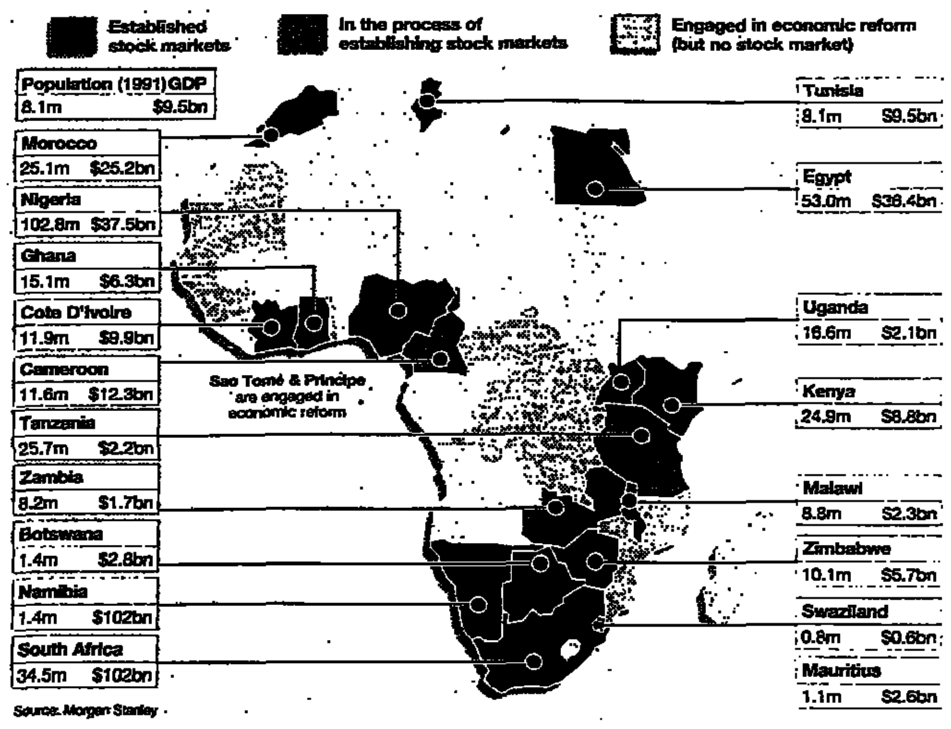
"Investment through individual African stock exchanges is not the best route for the emerging market fund," he adds, "as these exchanges are still too small and surrounded by too many restrictions".

The response of Africans with resources abroad may well prove the acid test of whether an African investment makes sense: if the continent's politicians, businessmen, civil servants are not risking their capital, foreign investors may suspect that Africa's elite knows something they do not.

**Africa: Wrestling with the stigma of history. Morgan Stanley, 1251 Avenue of the Americas, New York, New York 10020 Tel: (212) 703 1000.*

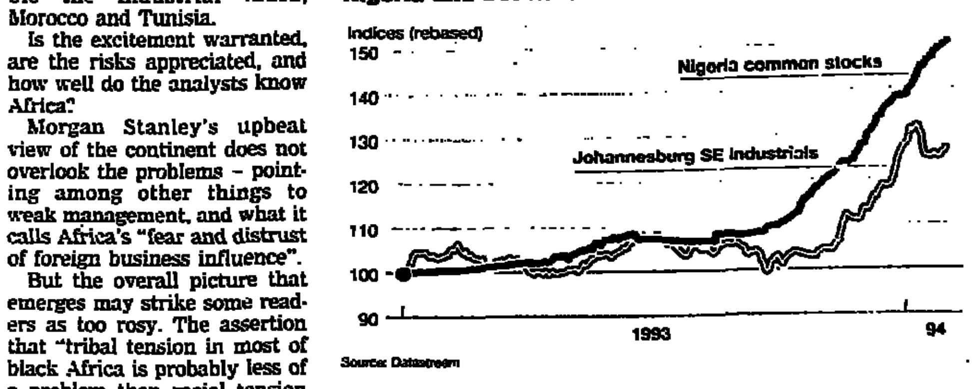
Michael Holman

African countries engaged in economic reform programmes



Source: Morgan Stanley

Nigeria and South Africa



Source: Datastream

THE EMERGING BOND MARKETS

BOND MARKETS

Venturing in search of higher yields

Fixed income investors are proving ever more adventurous in their quest for higher yields, turning to the world's more exotic emerging market locations to invest their funds.

While the yields on US Treasury bonds, Japanese government debt and European government bonds have declined steadily over the past couple of years, bond issues from some of the emerging economies have provided fixed income investors with an attractive, high-yielding alternative.

Many international investors are already familiar and comfortable with the idea of investing in emerging market debt which is denominated in US dollars, yen, or one of the core European currencies. But recently the trend has been for the more adventurous investors to explore the domestic debt route, investing in government – and where possible, corporate – bond markets.

"Lots of people are out looking for opportunities, and an increasing number of emerging market debt funds are looking at these domestic debt markets," says Ms Elizabeth Morrissey, managing partner of Kleiman International Consultants, which specialises in emerging markets and which publishes data on the emerging bond and money markets*. While emerging market debt funds already invest in Brady bonds and eurobonds, some are turning to the domestic bond markets of emerging economies as well.

Of the various domestic debt markets, Mexico has already seen considerable interest: in 1992 and 1993, international investors eagerly invested in Mexican "cetes" or short-dated paper to obtain double-digit yields.

"North Africa is attracting a lot of international investor interest at the moment – in countries such as Morocco and Egypt you can obtain double-digit yields tax-free, and it's really not that difficult to buy the paper," says Ms Morrissey. In Ghana, short- and medium-dated paper yields "over 30 per cent", she adds. Given that the yields on US Treasury bonds reached their lowest levels in nearly 20 years last year, it is easy to see why double-digit yields are such a lure.

Other markets which are attracting investor interest include the Peruvian corporate bond market, where the paper is denominated in US dollars. Ms Morrissey says this is seen as an "evolving" market, given that there have been several new issues, although she maintains it is still easier to invest in Peru via the eurobond market.

"The problem with some of these emerging bond markets is the currency risk: as an investor you have to feel confident with the government's overall economic policy and interest rate policy," says Ms Morrissey.

Mr Justin Cormack, an emerging markets fund manager at Guinness Flight, points out that "many of these domestic bond markets are quite large, but can be difficult to invest in, for example, South Korea".

Guinness Flight recently launched an Asian currency and bond fund, which has attracted about $11m from investors so far and which invests in the domestic bond markets of Malaysia, Thailand, Indonesia, South Korea, Hong Kong, and India (which is seen as particularly attractive because of the high yields available), as well as more developed markets in the region such as Australia and New Zealand.

Mr Cormack believes there are several good reasons to invest in the region's bond markets. Many of these countries will need to borrow heavily for substantial infrastructure projects. At the same time, some of the domestic stock markets are relatively expensive, while the currencies are cheap and have scope to appreciate, Mr Cormack says.

For some international investors these domestic bond markets may still seem rather esoteric. Their route into the emerging markets tends to be through the international bond market where there has been a plentiful supply of new issues, particularly from the Latin American countries.

Last year was a bumper year in the eurobond market, with record new issuance of $412bn, up from $279bn in 1992, according to figures compiled by IFR Securities Data. Of the $412bn in new issuance, $35.9bn – equivalent to 8.7 per cent of the total – was issued by emerging market names, with the bulk of this ($29.7bn) issued in dollars.

The volume of new issues from emerging market borrowers – especially Latin American ones – has surged. Total new issues from the emerging markets has more than doubled, from a total of $14.4bn in 1992 to $35.9bn last year, and total issuance from Latin American names has increased from $9.88bn (106 issues) in 1992 to $19.2bn (187 issues) in 1993, according to IFR Securities Data.

The more adventurous investors are exploring the domestic debt route, investing in government bond markets

Mexico, Brazil and Argentina remain the most important source of new issues, and as investors have become more familiar with the individual corporate names, the yield spreads (in other words, the yield pick-up over the relevant US Treasury bond) for new issues have gradually narrowed, while yields in the secondary market have continued to decline.

At the same time, there have been several exciting new developments in the Latin American sector in the past year, partly aimed at enhancing their appeal to investors. These include the launch of larger, more liquid issues; the issuance of bonds in a wider range of currencies; and a noticeable trend towards longer maturities. Five- and 10-year bond issues have become a more common occurrence, and Pemex (the Mexican state oil company) issued a $250m, 30-year Yankee bond with a coupon of 8% per cent last year.

Cemex, the largest cement company in Mexico, set the trend for larger issues with the launch of a $1bn, five-year eurobond issue in May 1993. This was the biggest eurobond issue ever by an emerging market name. Since then, the Republic of Argentina has raised $1bn with a global bond issue, and at the start of 1994, Bancomext, Mexico's state-owned import and export bank, launched the first global $1bn 10-year deal for a Mexican borrower.

Larger bond issues are obviously more liquid in the secondary market, a factor which is appreciated by international investors who tend to complain about the poor liquidity of $100-200m issues. Emerging market specialists point out that there is much more investor interest in these large liquid issues.

In addition, the more frequent Latin American borrowers in the international bond market have become more adventurous currency-wise, braving the non-dollar currency sectors: for example, the Republic of Venezuela has issued D-Mark eurobonds, while Pemex has issued Canadian dollar, sterling and French franc eurobonds.

Mr Ian Tweedley, director at West Merchant Bank, points out that by issuing in other currencies, Latin American borrowers have been able to reach a wider range of investors, and this process of diversification seems likely to continue.

** Emerging Bond and Money Market Guide, published by Kleiman International Consultants, 6215 32nd Place, NW Washington, DC 20015.*

Sara Webb

BRADY BONDS

Analysts point to pricing anomalies

From unsure beginnings, Brady bonds have become one of the most actively-traded sectors of the international bond markets.

The bonds emerged from the ashes of the 1980s developing-country debt crisis and the debt initiative launched in 1989 by the then US Treasury Secretary, Nicholas Brady.

Brady bonds were concessional bonds issued to holders of bank debt which had been subject to restructurings throughout the 1980s; often the bonds were backed by guarantees of some interest and principal.

Now the universe of Brady bonds is around $95bn, of which issues amounting to something less than $80bn are actively traded. A large proportion of these bonds are no longer held by banks, and are traded among individual and, increasingly, institutional investors.

For much of the 1990s, helped by the improved economic performance of countries such as Mexico and Argentina, the prices of Brady bonds have moved relentlessly upwards. As yields fell on the bonds of these well-performing governments, investors began to cast the net wider, seeking high yields. Even poorly performing countries such as Nigeria and countries without a Brady deal, such as Peru, have seen the prices of their debt rising sharply.

The rises – JP Morgan calculates total 1993 return from fixed-rate Brady bonds last year were 48.98 per cent and floating-rate Brady-bonds 38.37 per cent – have been such that some investors have begun to question whether there is anything left for investors in the Brady bond market. To argue that there is, many analysts are pointing to what they say are pricing anomalies between the Brady bond market and comparable Eurobonds.

Typical of these anomalies is the yield gap between the $1bn global bond issued by Mexico's Bancomext in January and so-called Aztec bonds, issued by the government under a 1988 attempt to restructure debt which anticipated the Brady initiative. The issue for state-owned Bancomext was launched at around 160 basis points of 10-year US Treasury note rates; the Aztec bonds – which mature in 14 years' time – yield 200 basis points over the Treasury yield curve. Yet, because of the US Treasury collateral, the yield, stripped of its US Treasury element, is calculated at 400 basis points or more – significantly more than the Bancomext issue.

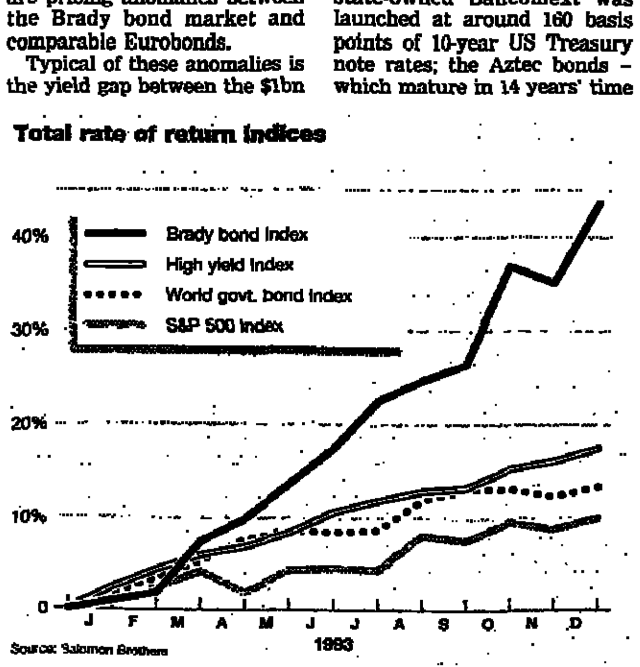
Mr Shahriar Shahida, head of emerging market debt trading and sales at Paribas Capital Markets in London, argues that, not only do many Brady bond issues yield more than equivalent Eurobonds, but they are also often more liquid and easy to trade.

Mr Paul Luke, at Morgan Grenfell, and others say that Brady bonds may be a superior risk to comparable Eurobonds. He argues that, in Latin American restructurings arising from defaults in the 1930s, bondholders that had already been forced to take a write-down were treated better in subsequent restructurings.

Furthermore, the "specialness" of the Latin Eurobond issues, which meant that there were no significant defaults through the 1980s (because there were hardly any outstanding bonds), is disappear-

Continued on next page

Total rate of return indices



Source: Salomon Brothers

ISSUES FOR INVESTORS

■ PERFORMANCE MEASURES

Calculated risks for higher rewards

It is not difficult to see why emerging market investments have caught on: the best performing emerging market funds last year made returns of more than 100 per cent, while the top 20 funds over the past three years have all returned more than 200 per cent, according to Micropal, which tracks funds' performance. Meanwhile, interest rates in developed countries are approaching their cyclical lows, and although economic growth is starting to pick up in some western countries, it is expected to remain slow.

Investors are becoming increasingly willing to venture further afield to enhance their returns. But the rewards offered by emerging market investments are, inevitably, accompanied by greater risks, and the first-time investor may find it difficult not only to select a market but also to track performance.

Emerging markets are both less liquid and more volatile than investments in established stock and bond markets. They are also less transparent, and often subject to restricted access for foreign investors.

Even for the institutional fund manager, investments in emerging markets are a complicated affair. While a fund manager in the UK stock or bond market can, if he so desires, replicate the FT-SE index or a gilts index, and then try to outperform them, indices on emerging markets are more complex.

Among existing bond indices, JP Morgan's liquid Brady bond index and Latin American Eurobond index are widely followed. But these, and other bond indices, include only a relatively small portion of the potential universe of investments.

In one sense, this has favoured the performance of bond fund managers, because it has made it relatively easy to outperform such indices. This is because the indices tend to cover the most liquid, least volatile, and therefore lower risk bonds. However, investors need to be aware of the risks involved in investments in markets where, for example, there may be a high level of political instability.

"No index is perfect," says Mr Marc Wenhammar, head of fixed income at Latin American Securities, the emerging markets division of Foreign and Colonial. "The problem is that the markets change so quickly, and have enormous access and liquidity constraints. You can't have an index that reflects all that."

For example, he points out that many Latin American bond indices are heavily weighted towards Mexican bonds, and may not include more esoteric paper such as that of Peru. Latin American Securities adopts a three-pronged approach, to achieve a balanced measurement of its performance.

Indices tend to cover the most liquid, least volatile, and therefore lower risk bonds. However, investors need to be aware of the risks involved in markets where, for example, there may be political instability

First, managers do not use a single index, but look at a number of benchmarks. Second, they look at their "peer group" – that is, similar funds with which they are competing. Third, they try to set targets in terms of the type of risks, return on investment, volatility, and so on. "We are not just selling returns, we want to sell a good risk/return investment," he says. "Some people don't necessarily want the highest returns, but are keen to have controlled volatility."

Agreeing the parameters of investment in emerging markets is therefore a vital part of the fund manager's service to a client. "It's a difficult thing for a fund manager and an end-investor to get to grips with," agrees one London-based emerging markets salesman. "What risk is the fund manager allowed to take? The eurobond and Brady bond indices are just a guide stick. You have to decide whether the fund manager will be able to throw in Algeria and the Ivory Coast."

He points out that the prospectus for a specific fund always sets out in detail what the constraints on investment are.

But, for both bond and equity markets, the problem is not merely one of selection but also of access. Many markets, particularly equity markets which tend to be more politically sensitive, are partially or largely closed to foreign investors.

"In many emerging markets, much of the market capitalisation is not available to a foreign investor," says Mr Bruce Johnson, head of global research at Baring Securities, whose emerging equity market indices are among the most widely followed.

In setting up its index, Baring tried to take account not only of market size and volume, but also of whether stocks are "investable" or available.

Many markets have a series of legal restrictions – on the total amount a single investor may hold in any one company, the total amount foreigners can hold in any one company, and the total amount all foreigners can own in the market overall.

Emerging market fund performance during 1993*

Fund	%
Turkey Trust	180.25
Turkish Investment Fund	155.53
J F Malaysia	150.38
J F India	150.07
J F Asean	136.68
Barclays ASF Malaysia	107.42
J F Eastern	106.16
Fidelity Fds Malaysia	104.15
Infinity Ltd	103.37
Fidelity Asean	103.03
Equity Fund of Brazil	102.77
Thornton Philippines Rdwlpt	102.74
J F Thailand	102.45
Oriental Smaller Companies	101.67
Morgan Grenfell Lat Am Brady	100.25
Fidelity Fds Asean	99.30
Brazilian Investment Fund	98.51
J F Philippines Trust	94.39
Genesis Malaysia Maju	94.29
Gartmore I F Asean	94.10

* Up to end of November Source: Micropal

There can also be tax and other difficulties, for example forcing investors to hold stocks for as long as three years, or treating capital gains inconsistently. Other issues include the convertibility of the domestic currency, and the fact that some foreign-held stocks trade at a premium.

Mr Johnson points out that although stocks may be legally available, there may be practical restrictions on their availability due to illiquidity.

There are some ways round restrictions and illiquidity problems, such as buying American depositary receipts (ADRs).

However, there is a danger of a mis-match between ADRs and the domestic market. Other methods of circumventing regulations include buying country funds or using swaps, or bonds with embedded options.

The Baring index places some importance on the ease of replicating the index. To this end, the market turnover has to be at least $2bn a year. Pakistan, for example, is a borderline case.

Other leading equity indices, such as those compiled by Morgan Stanley, place greater emphasis on economic criteria.

The smallest market included in the Morgan Stanley Capital International Index is Sri Lanka, which has a market capitalisation of £2.5bn.

"Our indices are broadly based," explains Mr Mark Sladkus, who publishes the index. "We are trying to provide a benchmark. Some investors do try to buy every stock, but they will have problems."

For investors keen to venture into the emerging markets, there are no simple choices.

Individual country funds have been a popular choice, and have often performed well, but are risky if they do not form part of a more diversified portfolio.

Generally, it is safer to try to find an investment vehicle which gives exposure across a range of emerging markets, taking the view that, while individual market moves will be hard to call, in the longer term, the developing economies are likely to offer falling yields on bond investments and strong equity markets fuelled by economic growth.

Tracy Corrigan

■ SPECIALIST FUNDS

Investors spoilt for choice

The investor who decides to back his or her favourite emerging market is spoilt for choice. According to Micropal's emerging markets monitor, there were nearly 500 emerging markets equities funds at the start of 1994. Twenty-one funds were devoted to Indonesia alone.

These funds are often based in "offshore" centres such as Luxembourg or the Cayman Islands to maximise their tax efficiency. The majority are denominated in US dollars, although some are in sterling and some in the local currency.

Emerging markets funds fall into three obvious categories: the global, the regional and the single country. The former have been both extremely popular and successful; they have a number of attractive arguments on their side. The first is that there are simply so many emerging markets that it is difficult for individuals, or even institutions, to keep track of them all. It makes more sense to sub-contract the task to a specialist manager.

The second argument is that individual emerging markets are highly volatile. By investing in a spread of emerging markets, via a global fund, one can reduce this volatility. This factor is reinforced by evidence which shows that emerging markets are not correlated with each other: in other words, there is no reason why the Brazilian and the Turkish stock markets should move in the same direction.

There are three categories of emerging markets funds – the global, the regional and the single country

Therefore, an investor can benefit from the phenomenon of greater economic growth, and therefore faster increases in corporate profits, without increasing risk.

Regional funds also have some advantages for investors who do not feel confident enough about choosing individual markets in Asia or Latin America.

Single country funds have a more mixed reputation. Inevitably, they will be more volatile than global funds. But they offer a focused investment route for those who want to back the growth of a particular market, say, Mexico in the wake of the North American Free Trade Agreement.

The reputation of the single country sector was damaged by the establishment of a number of closed-end funds in the late 1980s. These funds, often based offshore but with a London listing, were designed to tap institutional investor enthusiasm for individual, usually Far Eastern, stock markets. Problems arose because such funds were often launched when an individual market was the height of fashion. In some countries, a few authorised funds represented the only route for outside institutional investors to gain exposure to the market. In their early days, some funds moved quickly to stand at premiums to asset values.

However, when such markets subsequently fell out of favour, the asset value of the funds dropped. Furthermore, the closed end nature of these funds meant that investors could only sell their shares in the market. A combination of illiquidity, and out-of-favour markets meant that shares dropped to discounts to asset values. These could be as wide as 35-40 per cent.

In the early 1990s, there were rumblings of discontent from some institutions, who felt that brokers were neglecting the needs of existing investors. Some believed brokers were interested only in the substantial fees available for launching funds; they were less concerned about doing something to rescue investors when their holdings stood at a discount.

One or two attempts were made to unitise closed-end funds which stood at a discount, a device which would allow investors to realise their holdings at asset value. But the discount factor was also attacked by a number of predatory investors, who built up large stakes in funds at high discounts, with the aim of provoking managers into action and earning a handsome profit.

A general narrowing of discounts followed, enhancing investors' returns at a time of generally buoyant stock markets. City of London Emerging Markets, a unit trust which specialises in buying the shares of single country funds, produced returns of 236 per cent over the two years to January 1, 1994, (offer-to-bid with net income reinvested: source Hardwick Stafford Wright) making it the best performing international growth trust over the period. It is also top of its sector over one year, and second over three and five years.

Nevertheless, the volatility of the discounts in the single country fund sector inevitably raises the question of whether it is better to construct such funds on an open- or closed-end basis. An open-ended fund, constructed as a unit trust or mutual fund, avoids the discount problem. However, were an emerging market to crash sharply, the open-ended fund manager would have a problem. His investors would be rushing to redeem their holdings and he would have to offload stock on to an illiquid and fast-plunging market. The manager of a closed-ended fund can sit tight, however, since his investors cannot sell their shares back to him.

Investors who are less confident about choosing individual markets can opt for regional funds

In essence, the closed-end structure passes the liquidity risk on to the investor, in the form of the danger of a discount. However, the fans of closed-end funds argue that the freedom given to closed-end managers should improve their performance (and thus the return to the investor) in the long run.

The debate could become louder if the Securities and Investments Board goes ahead with proposals to replace its list of approved securities and derivatives markets with a general duty on unit trust managers to ensure that the markets in which they invest meet certain criteria.

The old system has restricted the freedom of UK unit trust managers to invest in certain emerging markets, and thus has limited the number of onshore single country funds. The new system may help pave the way to a plethora of Brazilian and Argentine funds, aimed at the British small investor.

Philip Coggan

■ DEBT TRADING

A new asset class created

Out of the disaster of the Latin American debt crisis of the 1980s, a number of big international banks have created a booming business in issuing and trading emerging markets debt.

The skills learned have been transferred to the Far Eastern markets, and now some of the banks hope that the same pattern can be repeated in eastern Europe.

From the rubble of the sovereign lending boom that originated in the petrodollar recycling bubble of the 1970s, the international banks have ingeniously created a new class of high-yielding international debt instruments. They may be of uncertain creditworthiness in the long run, but they are immediately attractive to income-starved investors.

"We are at the forefront of recognising that emerging markets are global," says Mr Jorge Jasson, senior vice-president in charge of the emerging markets group at Chase Investment Bank, in New York. "We have dedicated our resources to the asset class."

Chase is by no means alone. Big US banks such as Citicorp and J.P.Morgan, which sweated for years over their Latin American exposures, are now cashing in.

Elsewhere, one of the few European banks to have persevered in Latin America during the bad times is the Dutch-based ING; and it is now seeking to make its experience count in Europe, where it has, for instance, just bought a stake in Bank Slaski, in Poland.

"ING expanded in Latin America while other international banks were retreating," says Mr Jacques Kemp, chairman of its international division. "Now we are doing the same in eastern Europe."

He adds: "There is a global transformation as multinationals transfer to emerging countries. For the next five years there will be more growth in the non-OECD economies, especially in comparison with western Europe. The next generation will talk about the problems of the First World rather than the Third World."

The trading of emerging markets debt has now become an important activity, based principally in New York and London. There are indications that trading teams are also being established in Hong Kong to develop the Far East market.

An Emerging Markets Traders Association has been established, to provide a self-regulatory framework in which common standards can be developed.

And, to complement the 15 or 20 international banks which handle most of the trading, a network of inter-dealer brokers has sprung up to improve the flow of information. Brokers are in the process of installing live screens, a reflection of the fact that emerging markets debt is no longer a thinly-traded fringe market but now operates on a comparable basis to the mainstream securities markets such as First World government paper.

One of the leading brokers, Mr Martin Quintin-Archard, says that the development of the legal documentation by the market has been a significant advance. "You can assign a loan without a thought," he remarks.

Mr Quintin-Archard, who is managing director of debt trading at Intercapital, in London, says that the Latin American crisis was of fundamental importance, in that it taught the banks to trade loans. "If there is another crisis like this elsewhere, you already have the blueprint," he says.

The trading of emerging markets debt has now become an important activity, based principally in New York and London. There are indications that trading teams are also being established in Hong Kong to develop the Far East market

Bank regulators may regard this with misgivings: the reported readiness of certain banks to trade distressed debt in cases such as Euro Disney may hamper crisis management. Yet the banks are making considerable fortunes out of Latin America. One result, however, is that there is a serious shortage of skilled traders. "There's tremendous movement in the market," says Mr Quintin-Archard. "Entire teams are being lifted."

The big boom came last year. Although the climate had been rapidly improving since 1990, and many Latin American governments and corporate borrowers regained access to the international markets in 1991, it was in 1993 that the big payoff was seen in emerging market debt.

A cascade of money (mainly from US institutions) arrived, seeking high returns in the face of slumping yields on US Treasuries and similar top-grade paper.

The inflows generated their own lucrative price spirals, and the average return on Brady bonds, for instance, was around 44 per cent. The action more recently has been shifting to still more speculative debt, in anticipation, for instance, of Brady-type restructurings yet to come.

Mr Jacques Kemp, of ING, comments that a lot of bank provisions are being written back; and, in fact, Latin America's overall credit record in the past 10 years has been quite good, certainly in comparison with the extensive bad debts which banks suffered in the developed countries between 1989 and 1992.

But are investors losing sight of the credit risks? The collapse of Banco Latino, Venezuela's second-largest commercial bank, a few weeks ago provided a reminder of the problems.

The Latino failure was a one-off, insists Mr Jasson. But he agrees that a lot of paper is coming to the market without a credit rating, and without consistent quality. "There is an over-enthusiasm to bring to market issues that don't meet international standards," he says. "You should be very selective."

Mr Kemp is also wary about the extent of the securitisation of the debts, which raises questions about who exactly will be holding the paper when future defaults occur. "We are concerned that there will be an over-extension of credit in the next few years," he says. "But most of the issues are in the private sector, which has a much better record than the public sector. The markets have been steering clear of major issues for the governments."

Now the game moves on. Once international emerging market debt – much better-sounding than junk bonds – has been established as an asset class, there is enormous scope to supply an ever-broader range of product. "There is rapidly increasing interest from global investors who have a greater need to diversify their holdings," says Mr Jasson.

Mr Kemp has his eyes on the potential of eastern Europe: his bank has 2,000 staff there, and it hopes to open a branch in Moscow later this year.

"Latinos are now investing in east European debt, because they feel there are some common trends," he says. A rise in status can be very profitable for investors, as Latin America has shown. "East Europe will have to start at spreads of 300-400 basis points, but they will fall," Mr Kemp predicts.

Barry Riley

Continued from page 14

ing. Some $25bn of new bond market debt was issued by Latin American issuers last year alone.

Some investors still believe that the biggest gains are to be made in that shrinking number of countries yet to achieve a Brady deal. Brazil, which has scheduled a closing for its Brady deal by April 15, Peru, Ecuador, and Poland have all to complete Brady reschedulings.

The price of Peru's debt, for example, has risen sevenfold in the past couple of years, and is now trading at 70 cents to the dollar. Roughly half of this is accounted for by unpaid interest. Some investors are still excited by the opportunity for profit through an expected active debt-for-equity swap programme in the mould of Argentina's privatisation plan.

Investors in this pre-Brady debt have emerged as an increasingly important force: the Dart family of the US – which made its fortune in the 1960s through the invention of the polystyrene cup – has amassed a holding of at least $1.2bn face-value of Brazilian debt – 3.5 per cent of the outstanding medium-term debt not held by Brazilian banks. The family is unwilling to join the agreement carved out between the banks and the government, which threatens to hold up the agreement. The Darts, bankers reckon, may have important positions in other pre-Brady countries.

Stephen Fidler

■ PRIVATISATION

Foreign investors take stock

With the rise and rise of the world's emerging markets foreign investors have naturally been showing keen interest in privatisation issues.

In Singapore last October, for instance, the government's flotation of a 10 per cent stake in the telecommunications utility was some 10 times subscribed and the stock exchange extended its hours on the first day of trading to cope with the demand. Offered at S$2.00 the shares initially rose to S$5.00 and now trade at around S$3.60, making it by far the largest company in terms of market capitalisation.

Nearby, in Bangkok, TelecomAsia also became the largest capitalised company on Thailand's stock exchange when its shares were publicly traded for the first time in December, the shares closing the first session more than double the Bt55 ($2.15) offer price. The shares are now trading around the Bt130 level.

While there was considerable domestic interest in these two issues, demand was really fuelled by overseas investors, looking for opportunities in what became a spectacular rally from the third quarter onwards for emerging markets in general.

Kleiman International Consultants, a US-based consultancy which monitors emerging markets, reported earlier this month that OECD data found portfolio investment from the west and Japan "climbed by half in 1992 [the last time data was available] to $94bn, outstripping official finance of $60bn for the first time".

The main reason for this was due to the extent of liberalisation and privatisation in the emerging economies: Kleiman notes that globally $70bn was transferred from state to private hands in 1993, with Latin America making up 30 per cent of that figure.

It was not, however, a coincidence that telecommunications has been among the first sectors to take off, since it is an area to which emerging economies have been giving priority for growth. Among the regions Latin America has been leading the way: according to Baring Securities, market growth in this sector for the period 1990-1995 is estimated at 12 per cent, just exceeding the 11 per cent forecast for south-east Asia.

By comparison the same source estimates something like 4 per cent growth in Europe and 2 per cent in north America.

Taken in context Latin America's lead is not so surprising, since over the past few years the authorities in Argentina, Mexico, Chile and Venezuela have sold majority shares in the national telephone utilities. Meanwhile, foreign investors are awaiting opportunities elsewhere, particularly in Brazil where Telebras, the state-owned group, is seen as a sell-off candidate.

However, the privatisation process in Brazil ran into difficulties at the end of last year when the government was forced to cancel the auction of Petroquimica Uniao, a petrochemical company. This embarrassing situation – the first time an auction had been cancelled in the country since 1991 – arose after it was revealed that less than 7 per cent of the shares on offer had been bought. The auction was finally completed on January 27.

This contrasts with the sale of the Argentine government's 45 per cent stake in June 1993 of oil and gas group YPF, which has claims to being the oldest state oil company in the world. This was the second and by far the largest of the state's privatisations of its main energy groups, raising some $3bn, including an international tranche of some $2.3bn. The country's first sale was of federal gas and electricity companies in 1992 and the last the sale of Hidronor, the hydroelectricity generator which raised $1.1bn.

YPF was heavily subscribed by the foreign community, being a high quality stock which is also traded in New York. Access is also helped by Argentina's deregulated market environment with no restrictions placed on access or repatriation of funds, and the fact that unlike many of the region's economies it has a stable currency which is pegged to the dollar.

Flotation: the Singapore telecommunications utility was 10 times subscribed Picture: Glyn Genin

The oil group, now the most active issue in Buenos Aires with a market capitalisation of around $8.5bn, saw its shares rise steadily in the first weeks of trading, before settling down to the $25 level, one-third above the flotation price. Because of its listing in New York, most of the trade is now of the arbitrage kind – one estimate has put the amount at some $30m a day.

With investors constantly searching for new investment opportunities eastern and central European countries have become popular, with many of that region's markets showing strong gains during 1993. In Poland, for example, the equity market, comprising just 22 shares, soared last year, demonstrating gains of some 700 per cent in dollar terms; and such enthusiasm has spilled over into Hungary and the Czech Republic.

Privatisation is the key word to the region's performance. In Poland the government has pledged that it will give this area top priority, with between 20-30 "National Investment Funds", run by foreign and domestic investment managers, being set up to control the first round of privatisation.

Last year the sale of a 30 per cent stake in Bank Slaski, one of the nine state-owned banks being sold through the government's privatisation of banks, was greatly over-subscribed, and the shares started trading at 13.5 times the 500,000 zloty ($23) offer price.

Research, often one important difficulty with emerging markets, is improving with brokers such as Smith New Court, IMI Securities and Creditanstalt, the Austrian bank, active in Poland.

The Czech Republic has also excited interest among foreign investors as its voucher privatisation scheme takes off, with shares in more than 1,300 companies being distributed between 8m voucher holders. A second round of privatisation, involving more than 700 companies worth nearly $5bn, is also under way. Most of the vouchers have been deposited with investment funds.

Capitalising on interest in this region, Kleinwort Benson has just launched the European Privatisation Investment Trust, which raised some £320m in the pre-placement phase – the public offer closes on February 2 – some eight times the amount anticipated. Up to 20 per cent of the fund will be invested in eastern and central Europe.

John Pitt

■ ACCOUNTING AND REPORTING

Figuring out the differences

Of all the countries in all the world, very few offer investors a consistent or comparable set of accounting standards to help them interpret financial performance.

The pitfalls in attempting to interpret different sets of accounts and negotiating through the widely varying tax structures pose considerable challenges.

Many emerging markets have less formalised accounting standards, varying degrees of disclosure and different underlying philosophies which affect the figures.

A number of commentators divide the world between tax-driven accounts and accounts more geared to investors. The former may often have the incentive to keep published profits low, the latter to boost them.

For countries in the former category, the published accounts are those that are submitted to the revenue authorities. Countries often have relatively hidebound, fixed formats governed by legislation or "charts of accounts".

The latter category includes the UK and the US, where tax returns are separate – and even contradictory – and accounts are geared primarily towards investors.

Mr John Tetley, a member of the consultative group of the International Accounting Standards Committee (Iasc), who has particular knowledge of French and Portuguese-speaking Africa and South America, says the differences between countries can "cause quite a lot of trouble".

"If you are thinking of investing in family-owned local businesses, you have very little idea what the accounts mean," he says. "They report what they want to."

He argues that many have relatively few accountants or bookkeepers, let alone consistent standards which they can apply. Policies vary on the revaluation of assets, on depreciation and the treatment of foreign currency.

> Information on companies in emerging markets is limited and often filed very late

In particular, he highlights the role of indexation in high inflation countries such as Mexico, Brazil and Argentina, which can make comparisons confusing. "You are never quite sure what you are looking at," he says.

A survey conducted last year by the Centre for International Financial Reporting and Analysis (Cifar)* pointed out a number of difficulties in interpreting international financial statements.

The information on companies in emerging markets is limited and often filed long after the year-end. Many subsidiaries conduct transactions with parent companies, adding to the awkwardness of extracting relevant, timely data.

English translations of annual reports and other financial information are often unavailable or unreliable. Converting figures expressed in local currencies may prove problematic. Varying year-ends makes comparison difficult and auditing standards vary.

That is before accounting standards. Cifar cites eight particular issues treated in vastly divergent ways across the globe: depreciation, inventory methods, deferred taxes, consolidation principles, discretionary reserves, inflation adjustments, foreign currency translation, and the valuation of fixed income and equity securities.

Some see signs of optimism for the future from the work of the Iasc, which has been attempting over many years to establish a set of standards transcending national differences.

Some countries have adopted Iasc standards wholesale, or developed their own versions based on the same international approach. For example, the Hong Kong Stock Exchange last year issued new rules requiring foreign incorporated companies to present reports in line with Iasc standards. They have been incorporated into requirements in Pakistan, Zimbabwe, Malaysia, Kenya and India.

The Asian Development Bank and the United Nations Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting have used Iasc standards.

However, Iasc standards have been criticised for the political compromises necessary to build consensus between different countries' standards. The result has been a wide range of alternative treatments which did little to improve ease of interpretation for readers of accounts.

That has now begun to change significantly, with the organisation's "comparability/improvements" project designed to bring about greater harmonisation.

The motivation has been partly to gain recognition for Iasc standards from the International Organisation of Securities Commissions (Iosco), which would allow far wider recognition of the standards in different national stock exchanges.

The strategy has begun to pay off, with Iosco now endorsing the Iasc cash flow statement standard, for example. But more wholesale ratification is likely to be a long way off.

To add to the confusion, some of the national accounting standards setters are also beginning to become more interested in international collaboration, in a way that may threaten the Iasc's traditional role.

Standards setters from the UK, US, Canada, France, Australia and elsewhere have in the past two years begun discussing sharing the workload for research and standards drafting on a number of topics.

There are still wider concerns that Iasc and other national standards were devised in the developed world and may be far less appropriate without substantial modification in many of the emerging markets regions.

> English translations of annual reports are often unavailable or unreliable

Meanwhile, investors need to bear in mind tax issues within emerging markets. Mr Peter Dickinson, international tax partner with Coopers & Lybrand in London, says one of the key tax questions in emerging markets is "how to get one's money out".

"You need to understand the exchange control regulations," he says. "A lot of countries have very tight controls, such as South Africa and India." In addition, he says there may be specific stipulations on how money is held through the banks.

Within countries, there are often federal, regional, state or city taxes to be considered. Then there is the small print in the double taxation treaties agreed between the investor's country and the country for investment, which may impinge on returns.

"There is a much higher degree of risk in emerging markets," says Mr Dickinson. "Investors should think long and hard at their potential after-tax returns." He says the most important factor for investors tends to be withholding taxes on dividends paid outside the country.

In addition, the position is far from static. "The rules keep changing," he says. "In some countries like China the rules on how much tax to pay move from one month to the next."

* *International accounting and auditing trends, 3rd edition, 1993. Centre for International Financial Analysis and Research, 211 College Road East, Princeton, New Jersey 08540, US. $345 plus tax and shipping.*

Andrew Jack

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Rogers hits snag in Hunter takeover

By Bernard Simon in Toronto

Uncertainty about the ownership of a 17 per cent block of shares in Maclean Hunter has put an obstacle in the way of Rogers Communications' proposed bid for the Toronto-based publishing and cable-TV group.

Rogers, which is Canada's biggest cable-TV operator, was expected on Friday to announce the terms of a "strategic merger" with Maclean Hunter valued at between C$4bn ($3bn) and C$4.5bn.

Instead, Rogers said that it would first ask the Ontario Securities Commission to rule whether it could make an offer for all MH's outstanding shares without including a parcel of 36.3m shares held by a company known as Maclean Hunter Holdings.

The commission's decision is expected within a week or two.

The status of the MH shares held by MH Holdings could make a substantial difference to the cost of a takeover bid, as well as Rogers' ability to secure majority approval of all MH shareholders for its offer, as required under a "poison pill" which MH set up in 1989.

Rogers said the equity of MH Holdings is almost entirely owned by two units of Maclean Hunter itself, and MH's financial statements treat the shares held by MH Holdings as if they were not outstanding.

MH Holdings was formed by senior Maclean Hunter managers and former family shareholders after the parent company went public in the 1960s, apparently to help thwart a hostile predator. Details of its ownership have never been revealed.

Rogers believes that by combining their resources, the two companies have a better chance of standing up to international multimedia conglomerates, as well as to Canada's powerful telephone companies.

But MH pre-empted its bid early last week by revealing it had received an unsolicited and informal takeover proposal from the cable-TV operator.

MH has indicated it will not show its cards until Rogers puts a firm offer on the table.

A Polish bank sale has exposed a stock market weakness, writes Christopher Bobinski

Privatisation dream turns into nightmare

The queues twirl and intertwine around the room as people stand waiting to see a stockbroker in the crowded modern Warsaw office. More people stand in line in the street outside.

It is a scene reminiscent of Poland's communist past. Yet its cause is the attempt to create a broadly-based share owning democracy in a newly capitalist economy.

Similar scenes are repeated every day at most of the 400 or so stockbrokers' offices throughout Poland in the aftermath of the privatisation of Bank Slaski, one of Poland's top five banks. The flagship of the Polish privatisation programme is rapidly turning into a nightmare.

About 800,000 people bought shares in the offer which is threatening to overwhelm Poland's young stock market established in 1991 with only 30 stockbrokers and a fledgling computer-based trading system.

The consequences of the sale go far beyond the stock market. The Bank Slaski sale is proving extremely politically controversial. Mr Stefan Kawalec, a deputy finance minister who sold 25.9 per cent of the equity at the public offer price of 500,000 zlotys per share to the Dutch ING Bank, has already been dismissed after protests from the Peasant Party (PSL), part of the government coalition, that the bank had been undervalued.

The protests have been fuelled by the volatile shifts in the bank's share price, which rose to 6.7m zlotys per share when first quoted on the Warsaw Stock Exchange (WSE) on January 25.

Mr Marek Borowski, the finance minister who backed Kawalec on the issue, has since himself resigned leading to a crisis inside the governing coalition between his Social Democratic (SLD) party and the PSL led by Mr Waldemar Pawlak, the prime minister.

But the situation is creating a different kind of tension in the queues at the stockbrokers. Many Poles have had their imaginations fired by a WSE index which has risen 14-fold over the past year. Having taken to investing like ducks to water they are finding that the pond has suddenly frozen over.

Poles took to investing like ducks to water, but the pond has frozen over

Most of the people in the queues are there to open accounts with the stockbrokers to register their shares. Only once they are registered will they be able to sell them. The delays in registering shares has left investors frustrated as well as having a huge impact on the share price.

Indeed the most probable reason for the 13.5 times increase in the bank's stock price when it was first quoted is that so few people were actually in a position to sell their shares because of delays in registration. Only 0.36 per cent of the issue was traded on the opening day. Since then a mere 3 per cent of the 3.7m shares sold in the public offer have changed hands.

The finance ministry has demanded that the Bank Slaski explain the delays in issuing the shares and why it decided to ask the stock exchange to quote the stock when relatively few investors were actually in possession of their shares. The Securities Commission is conducting its own investigation into the case which may focus on the stock exchange's failure to postpone trading in the shares.

The queues meanwhile are getting increasingly impatient. The share price has slipped by almost 30 per cent since January 25. But the great mass of investors, who were allocated three shares each in the oversubscribed offer, have been unable to sell their stakes. In Gdansk for example the Bank Gdanski, which has a broking operation, estimates that 50,000 people in the area have Bank Slaski shares. But the office, the only broker in the city which is still opening accounts, is processing only 500 a day.

The offer has exposed the weakness of the stock market infrastructure. Last autumn, before the offer came to the market, there were about 150,000 investment accounts in the country. Analysts estimate that the Bank Slaski offer will add another 300,000 investors. The offer's oversubscription suggests the demand is even higher.

That suggests the Polish privatisation process could be caught in a vice. On the one hand the government and investors are keen to see it go further. The programme includes the imminent sale of the Krakow based Bank Przemyslowo Handlowy and a number of other companies.

Workers in companies to be privatised who will receive up to 10 per cent of the equity free are beginning to become keen on sales.

Yet the danger is that just as privatisation is starting to attract investors to water, so the limits of the infrastructure will prevent most from drinking as quickly as they would like.

Granada and LWT may meet this week

By Raymond Snoddy in London

London Weekend Television and Granada may meet this week to see if agreement can be reached to end the hostile takeover confrontation between the two.

On Saturday Mr Alex Bernstein, chairman of Granada which has made a hostile bid worth around £650m ($975m) for LWT, telephoned Sir Christopher Bland, LWT chairman, proposing weekend talks.

The LWT executive suggested talks would be better after publication of LWT's final defence document, due after Friday's clearance of the Granada bid by the Department of Trade and Industry.

In a circular to shareholders LWT said January advertising revenue reached £14.8m, a rise of 10 per cent on last year, viewing figures rose by 5 per cent and GMTV, the commercial breakfast station in which LWT has a 20 per cent stake, was expected to move into profit this year.

"LWT has made an impressive start to the year and we believe the group's prospects remain excellent," Sir Christopher Bland said. Granada chief executive Mr Gerry Robinson replied that all of ITV had a good month in January.

It is unclear how much room there is for talks. LWT would see a 200p a share improvement in the Granada offer, at present worth around 700p, as a minimum for a deal. Granada would regard that as unrealistic although it is considering sweetening its offer.

After the Fed's move

analysis: pages 20-23

Markets this week

Starting on page 20

MARTIN DICKSON: GLOBAL INVESTOR

The next few days will be tense as the world waits to see just how serious a sell-off develops in stock and bond markets following Friday's tightening of monetary policy by the US Federal Reserve. Page 20.

Bonds:
Many analysts on Wall Street believed the end had come on Friday. The end, that is, of a bull run in US Treasury bonds which has lasted more than three years. Page 22

Equities:
There were signs late last Friday that the UK equity market may at last have topped out: in New York, few expect to see stocks fall as sharply this week as they did last week. "The first cut is always the deepest," said one analyst. Page 23

Emerging markets:
The rise of US interest rates caused little surprise among most emerging market strategists. The most vulnerable markets might be those with dollar exposure, such as Hong Kong, Thailand and Malaysia. Page 21

Currencies:
A strong dollar will dominate foreign exchange markets this week after Friday's tightening. Page 21

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Beazer Homes flotation to raise £450m

By Maggie Urry and Andrew Taylor in London

Beazer Homes, the UK housebuilder, plans to raise sufficient new money to leave it with "significant" net cash when it is floated next month. Hanson, the conglomerate which acquired the whole of Beazer in December 1991, plans to sell all its shares in the float. The new money being raised could increase the size of the offer to over £450m.

The extra money will help the company, the fourth largest UK housebuilder, to expand annual completions from 4,805 in the financial year to end-September, to 7,000 a year by the late 1990s. It also plans to move upmarket.

According to James Capel, joint broker to the issue, this strategy suggests annual profits could then exceed £60m. In its latest financial year Beazer Homes made an operating profit of £37.5m.

Yesterday Hanson announced that Mr Victor Benjamin, deputy chairman of Tesco, the food retailer, and of Lex Service, the car distribution and leasing group, is to become chairman of Beazer Homes, while Mr David Legg, joint managing director of GE Capital Europe, part of the US financial services group, is to be a non-executive director. Another non-executive will be appointed.

Beazer Homes has not published its balance sheet for September 30 1993, but James Capel estimates it had net assets at that time of £120m to £130m. Since then it has acquired Walker Homes, a Scottish housebuilder, for up to £28.2m, adding 1,488 plots to the land bank, and bought another 770 plots.

Hoare Govett, lead broker on the issue, and James Capel have each published pre-prospectus research. Both say that the value of Beazer Homes' land bank, at £8,500 a plot, is well below that for other national housebuilders. Beazer Homes has a bias towards Scotland and the north of England where land is cheaper.

The low land value follows a £75.5m write-down of the land bank in the 1992 accounts, part of a £99.3m provision. Of the £75.5m, £49.1m was written off the value of land in the south and £22.4m against the Midlands. The provision cut land values to a level where Beazer Homes could make a 12¼ per cent gross margin on houses.

Beazer Homes' land bank, totalling 16,117 plots on December 31 last year, is also longer than that of its rivals, at 3.4 times last year's completions. However, James Capel points out that the low written-down value of the land bank will mean the group's profit margins are likely to rise less sharply as the market recovers than those of other housebuilders.

A pathfinder prospectus will be issued on February 24, with pricing due on March 10. Applications for the public offer will close on March 18 with dealings in the shares starting on March 25.

This week: Company news

GENERAL MOTORS/FORD

A welcome return to busy production lines

General Motors and Ford Motor, the two largest US vehicle manufacturers, are expected to announce sharply improved fourth-quarter earnings this week.

US car and light truck sales rose 8.4 per cent in the final three months of 1993 compared with the same period of 1992, and the higher volume has allowed carmakers to run their plants closer to capacity and reduce the costly rebates used to sell vehicles during the downturn of the past few years.

The most interesting part of GM's results, due on Thursday, will be how much the company has managed to turn around its bloated North American vehicle operations, which lost $17bn between 1990 and 1992.

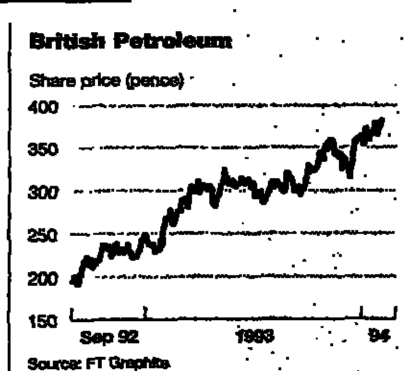
The company has set itself a target of breaking even in North America in 1993 before interest, tax and other special charges, but in a recent interview Mr Jack Smith, the company's chairman, predicted a somewhat better performance, saying North America would "be in the black" before such charges.

The mean Wall Street forecast is for GM to earn around $1.02 a share, according to IBES, the securities information service.

Ford has made big gains in market share in North America over the past year, helped by strong-selling vehicles such as the Explorer sports utility vehicle and the recently relaunched, sporty Mustang. Its European operations, which have suffered severely from recession in Britain, are also on the mend, and the company recently forecast a return to profits in Europe in 1994 in spite of the lingering recession on the continent.

Ford held an analysts' meeting last month, which Mr John Kirnan of Salomon Brothers described as "the most upbeat in years". Wall Street's mean expectation is earnings of $1.13 a share, though estimates range as high as $1.45.

British Petroleum



Source: FT Graphite

BRITISH PETROLEUM

Troubles continue for European chemicals

British Petroleum will be the first of the big European integrated oil companies to report final results for 1993 when it releases its fourth-quarter figures on Thursday.

Analysts expect after-tax profits from the final quarter of about £290m – up from £200m – on a replacement cost basis, which strips out the losses and gains from stockholding.

But the company could also take a £200m exceptional charge for restructuring its troubled European chemicals division. No new chemical plant closures are expected, but a rationalisation of product lines is likely.

Mr David Simon, chief executive, has made no secret of his frustration at the lack of progress being made by the European petrochemicals industry in cutting its chronic over-capacity.

On the upstream oil and gas side, analysts expect BP to continue to report success in cost-cutting. That was one of the main factors underpinning the performance of most of the oil majors in the second half of the year.

Weak oil prices have so far not affected the viability of any big development projects, although the company has curtailed some drilling activity and has squeezed suppliers to reduce capital costs.

For the year, BP's after-tax profits, excluding exceptionals, are forecast to have doubled to roughly £1.1bn.

OTHER COMPANIES

Italy's biggest privatisation

It will be a busy week for Banca Commerciale Italiana, Italy's fifth biggest bank, and the latest in the privatisation line-up. Observers hope the Consob stock market watchdog will approve the listing prospectus today, allowing the bank to call a press conference on Friday to outline the deal. Floating the Iri state holding company's 57 per cent stake in BCI promises to be Italy's biggest privatisation, raising more than L2,500bn ($1.5bn).

■ Unidanmark: The second largest Danish banking group is expected to move modestly back into the black when it publishes its 1993 figures today. In 1992 it made a whacking DKr4.66bn ($700m) loss, but last year's soaring bond and share prices should ensure a return to profit.

■ Elf Aquitaine: The oil group's public offer, for individual investors, will close on Wednesday evening. At a price of FFr385 per share – compared with Friday's closing price of FFr413.2, up FFr5.2 – most industry observers predict that the public tranche will be oversubscribed, as in the previous two privatisation issues – Banque Nationale de Paris and Rhône Poulenc, the chemicals group.

The price for institutional investors is being set through a process of book-building. The result will be announced on February 14, with most analysts expecting a price of between FFr400 and FFr410 per share.

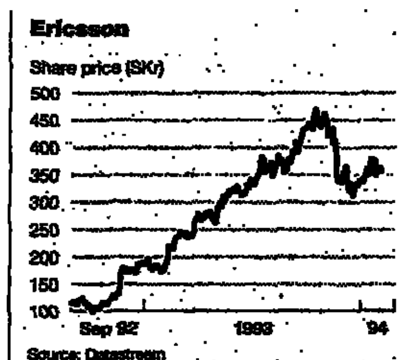
■ Total: Also on Wednesday, France's other oil giant, which is already in the private sector, will announce estimates of its results for last year. Unlike Elf, which saw a sharp fall in profits, Total is expected to announce results similar to 1992 when it reported net income of FFr2.85bn ($500m).

Like other companies in the sector, Total has suffered from the fall in the oil price. The company said last December that it would take an exceptional charge of about FFr800m relating to the impact of the oil price decline.

■ Ericsson: The Swedish telecommunications group is expected to announce that its profits more than doubled in 1993 when it presents its full-year figures on Thursday. Analysts are forecasting a surplus of around SKr3bn ($380m), compared with SKr1.3bn in 1992. The advance has been driven by massive growth in orders for digital cellular equipment. Investors cooled to the shares after the third quarter and will be looking for an upbeat statement about prospects in 1994.

Also in Sweden, Stora, Europe's leading forestry group, will present preliminary 1993 figures tomorrow.

Ericsson



Source: Datastream

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Pentos to seek high street rent reductions

By Paul Taylor

Pentos, the troubled specialist retailing group which includes the Dillons, Ryman and Athena chains, plans to renegotiate the rent on some of its high street stores.

The move, part of a series of measures designed to cut costs and improve the group's performance, has emerged from a wide-ranging review ordered by Mr Bill McGrath who formally took over as chief executive at the start of last month.

As part of the strategic review, which is due to be completed by the end of February, Pentos has been examining the costs of its 500 stores around the UK, focusing on those where rental costs are substantially out of line with current market prices.

Yesterday the company confirmed that Mr Frank Brazier, chief executive of Pentos Retailing, had written to its landlords telling them that it had been forced to pay December rents in three delayed payments because of "the unstainable burden" placed on the group's cash flow by losses in the three high street store chains. In the letter Mr Brazier also warns landlords that the group will be "seeking their assistance in terms of rent concession which will be requested shortly to enable the survival of the group."

However, Mr Brazier's letter – and the unilateral decision to delay December rent payments in particular – appears to have angered many landlords just at a time when the group urgently needs their co-operation in reducing its cost base.

Although Mr Brazier discussed the broad issue with Mr McGrath the new chief executive favours consultation rather than confrontation and is understood to be concerned about the impact of the letter.

In mid-December Sir Kit McMahon, who replaced Mr Terry Maher as Pentos' chairman, warned that the group would incur a "substantial" loss before tax and exceptional items this year and pass the final dividend. He blamed the expected deficit on tough trading conditions and, in particular, losses at the Athena poster shops and increased interest costs.

Sir Kit added that "substantial write-downs and charges will be necessary and will be taken as exceptional losses in the current year." Analysts are expecting Pentos to announce pre-tax losses of around £40m for 1993, including about £30m of exceptional charges.

Receivers called in at IFM

International Food Machinery, the troubled second-hand catering equipment supplier, has gone into receivership.

Mr Alan Katz and Mr Kevin Mawer, both partners in Arthur Andersen's Leeds office, were appointed joint administrative receivers to the Humberside-based group late on Friday. Earlier in the day shares in IMF, which was floated on the stock market just 14 months ago at 51p a share, had been suspended at 14p pending clarification of its financial position.

The group issued a profits warning in November and said results for the year would be "substantially below" market estimates.

M&G plan approved

Shareholders in M&G Group, the unit trust company, have overwhelmingly approved a controversial executive share option scheme which allows exercise without any reference to performance criteria.

The scheme had been opposed by the National Association of Pension Funds, one of the UK's largest shareholder groups, which has urged companies to set performance criteria for the exercise of options that tied rewards for executives more closely to rewards for shareholders.

A bimbo with the sweet smell of success

Inspec Group heads for market with £100m valuation. **David Wighton** reports

Inspec Group, a speciality chemicals company bought from British Petroleum by a management team for £40m only 18 months ago, should be valued at over £100m when it floats on the stock market in the next two months.

The flotation is expected to raise about £50m via a placing of shares combined with either a public offer for sale or an offer through financial intermediaries.

Even by the standards of recent management buy-out flotations the investors will have done well. The venture capital backers, led by Advent International, will have seen the value of their investment more than double while the stake held by management and staff, for which they paid around £600,000, could be valued at over £15m. That will make it one of the most successful examples of the Bimbo – the increasingly fashionable combination of management buy-in and buy-out.

The management is headed by chairman Mr John Hollowood, 58, a former Oxford research fellow who has already made one fortune from speciality chemicals. In 1984 he sold Fine Organics, the drug intermediates business he founded, to Laporte for almost £8m. He stayed with the company and joined Laporte's acquisitions team before retiring in 1990. "I played a lot of golf but soon got bored."

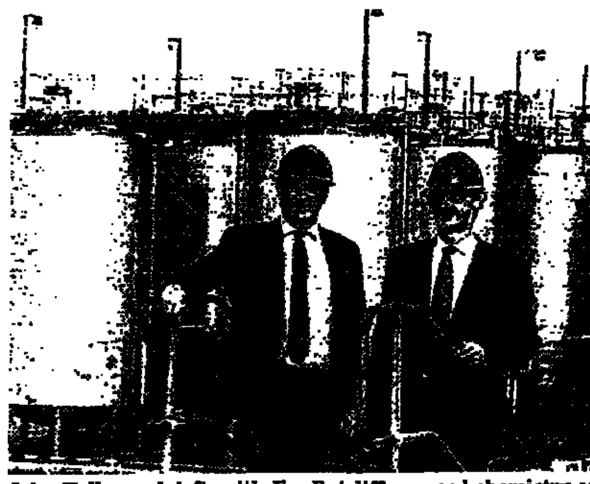
Despairing of any improvement in his handicap, he teamed up with Mr Jim Ratcliffe, 41, a chemical engineering graduate who, after a career spanning the London Business School, Esso and Courtaulds, had moved into venture capital with Advent.

They started approaching the many large chemical and oil companies which were looking to sell their specialist chemicals subsidiaries. A year later they clinched the BP deal.

"Some people have accused us of being lucky to find this business, but we looked at 25 different companies," says Mr Ratcliffe, who left Advent to become group managing director of Inspec.

However, there is no denying that their timing was fortunate. BP needed cash and was under pressure from the City to speed up its disposal programme. Better still, it was just completing a major restructuring of its fine chemicals arm which included the closure of its site at Carshalton in London and the transfer of production to its other plant at Hythe on Southampton Water. In a successful attempt to return the business to profit BP had invested £13.7m at Hythe and rationalised both the product line and the workforce.

"We got a very good chemistry set and some very good people," says Mr Ratcliffe. Eleven of the senior managers joined the buy-out and now 85 per cent of the 150 staff at Hythe own shares.



John Hollowood, left, with Jim Ratcliffe: a good chemistry set

The BP legacy also included some very strong market positions in specialist products such as dimethyl isophthalate (DMIP), a key ingredient for the making of PET plastic bottles. Inspec, the world's biggest manufacturer, has 80 per cent of the growing European DMIP market and is making inroads in east Asia. It is also the world leader in hydroxy monomers which provide the high gloss finish for car paints.

Despite its exposure to the motor industry, which provides over a fifth of its sales, and to continental Europe, which accounts for well over half, Inspec has grown strongly since the new team took over. Helped by sterling's devaluation turnover rose by 17 per cent to £49m in 1993 with operating profit from continued activities up by more than half to £7m. At 14.3 per cent its operating margins are among the fattest in the sector while its profit per employee of £41,000 is more than double that of its nearest quoted rival, Allied Colloids.

The statistics have improved further following December's $20m (£13m) acquisition of Allco Chemical, an American speciality chemicals company which boasts operating margins of 36 per cent.

Thanks to its strong trading and modest capital investment needs Inspec managed to fund virtually all the Allco purchase price from cash flow. Most of the funds raised in the flotation, to be handled by merchant bank Morgan Grenfell with brokers Cazenove, will be used to pay off expensive buy-out debt.

Freed from that burden the company could contemplate bigger deals, but Mr Hollowood lays more stress on expanding the existing business.

"The easiest way to increase our profits is to fill up our plant at Hythe which is operating at only 67 per cent capacity."

He sees good growth prospects for its newer products such as DMB, a starting material for synthetic musk which provides the "stay-fresh" smell for detergents. Even Inspec's most mature business, synthetic lubricants, is growing well thanks to the development of new applications. Potentially most exciting are the patented oil-soluble polyethers which, when added to ordinary mineral oil, are claimed to give it the characteristics of totally synthetic engine oils – for half the price.

Mr Ratcliffe says that several major oil companies are now testing the product which BP spent £3m developing. "If it is successful it could be a very substantial business. We will know in about three years time."

Mixed response for Chiroscience

Chiroscience, the pharmaceutical group which is coming to market through a 30m share placing and offer for sale, has received a mixed initial reception from investors.

The institutional placing of 16.7m shares priced at 150p a share was oversubscribed about three times. However, Robert Fleming, which sponsored the issue, only received applications for 10.8m shares under the offer for sale, representing just over 80 per cent of the shares available.

As a result all valid applications will be satisfied in full, including priority applications for 18,100 shares received from employees.

Expansion at Lancashire Enterprises

By Ian Hamilton Fazey, Northern Correspondent

Lancashire Enterprises, the privatised regeneration company formerly owned by Lancashire county council, is to form a national economic development company.

The new company will operate partnerships with construction companies and local authorities based on its successful Lancashire model.

LE, which floated in 1989 to head off government restrictions on trading by councils, has had four years of profitable expansion, with turnover growth from £6m to £15m. Pre-tax profits rose from just under £1m to £3m last year.

Its shares, which are traded on a matched bargain basis, were selling at 520p last week, compared with 116p at launch.

LE's basic approach was to capitalise money given by the county council in 1981 and use it to redevelop closed-down factories and old mills in Lancashire. This provided property income from rent and trading, which was then channelled into economic development. The Labour-controlled county council – which has always given cross-party support – got dividends.

A portfolio of start-up and venture capital funds followed, with subsequent corporate finance activities to help companies grow, as well as consultancy throughout Europe. LE now employs 270 people and has offices in Manchester, Brussels, Luxembourg, Ireland, Lublin in Poland, Brno in the Czech Republic, and Nyiregyhaza in Hungary.

Only a third of turnover is now with Lancashire County Council. Customers include the EC, UK government, the World Bank and the European Bank for Reconstruction and Development.

Mr Jim Mason, the chairman, who is a former deputy chairman of the Co-operative Bank, said yesterday: "This will be a natural expansion. We have always acted as a bridge between public and private sectors and it has been consistently demonstrated that the market is willing to pay a fair price for our services."

The new company, a wholly-owned subsidiary, will be called UK Economic Development Partnership. It will be financed from retained profits. Ironically, the government's attempts to curb trading by local authorities triggered the growth: once privatised, LE was able to break out of its Lancashire base and establish the market for the new company.

CROSS BORDER M&A DEALS

BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT
BMW (Germany)	Rover Group (UK)	Motor vehicles	£800m	Industry restructuring
GE Capital (US)	Triathlon Leasing (Canada)	Motor hire	£113.3m	Another Bronfman disposal
United Newspapers (UK)	Harmon Publishing (US)	Publishing	£66.6m	Expanding US business
United Newspapers (UK)	HK International Trade Fair (HK)	Business services	£29.3m	Strategic E Asia expansion
Cott Corporation (Canada)	Ben Shaw's (UK)	Soft drinks	£6m	Taking Pontefract Stake
Silvermines (Ireland)	Molynx Holdings	Electronics	£4.9m	Recommended cash bid
Sage Group (UK)	Extra Software (Spain)	Computer services	£0.2m	Cash for 20 per cent stake
Sherwood Group (UK)	Intimate Touch (US)	Textiles	n/a	Cash deal
Unilever (UK/ Netherlands)	Helados Tio Rico (Venezuela)	Food	n/a	Cementing ice-cream position
Reed Elsevier (UK Netherlands)/National Trade Productions (US)	Strategic alliance	Business services	n/a	Reed buying NTP exhibitions

Prices for electricity determined, for the purposes of the electricity pooling and settlement arrangements in England and Wales.

1/2 hour period ending	Provisional Price for Trading on 08.02.94: Pool purchase price £/MWh	Final Prices for Trading on 09.01.94: Pool purchase price £/MWh	Pool selling price £/MWh
0030	17.13	18.10	18.10
0100	25.39	34.71	36.92
0130	36.50	38.15	40.36
0200	38.50	38.15	40.36
0230	20.95	27.82	29.82
0300	20.95	27.62	29.82
0330	30.96	27.62	29.82
0400	20.95	22.56	24.77
0430	18.10	22.56	24.77
0500	10.65	20.49	22.70
0530	10.65	20.68	22.89
0600	16.00	20.68	22.89
0630	10.64	20.68	22.89
0700	10.65	21.03	23.23
0730	10.65	21.03	23.23
0800	11.51	20.57	22.77
0830	11.51	18.04	18.04
0900	16.23	21.03	23.23
0930	18.84	21.03	23.23
1000	19.37	21.03	23.23
1030	19.35	22.12	24.33
1100	19.77	22.14	24.34
1130	21.75	25.25	27.45
1200	26.05	29.63	31.83
1230	26.05	29.63	31.83
1300	26.05	29.63	31.83
1330	26.05	29.63	31.83
1400	17.42	24.05	26.25
1430	17.15	22.12	24.33
1500	16.24	18.06	18.06
1530	16.23	18.04	18.04
1600	16.23	18.05	18.05
1630	17.15	22.98	25.19
1700	17.20	26.68	28.87
1730	21.52	33.65	35.86
1800	23.96	33.65	35.86
1830	55.95	33.14	33.34
1900	55.95	33.14	35.34
1930	55.95	26.66	28.87
2000	22.00	26.56	28.77
2030	20.71	26.18	28.38
2100	20.26	22.63	24.83
2130	20.26	22.63	24.83
2200	19.73	22.40	24.61
2230	17.15	22.12	24.33
2300	16.24	18.05	18.05
2330	16.24	18.06	18.06
2400	16.23	18.01	18.01

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £18.89/MWh becomes 1.889p/kWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreements which govern the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction (and sometimes major alterations) until final pool prices are determined approximately twenty-four days after the day of trading. Accordingly, due to the possibility of their revision and/or correction, no reliance should be placed upon provisional pool prices for any day being the same as final pool prices for that day. Final pool prices are also capable of revision. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price. Further information on pool prices is provided on behalf of the Pool by Energy Settlements and Information Services Limited. Anyone wishing to receive such information should telephone 0602-456789 between 8:30am and 5:15pm Monday to Friday.
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0030	17.20	18.10	18.10
0100	25.92	23.82	25.43
0130	25.92	37.11	38.73
0200	25.92	37.11	38.73
0230	20.28	37.11	38.73
0300	20.28	23.82	25.43
0330	20.28	23.82	25.43
0400	17.20	22.68	24.28
0430	17.13	18.06	18.06
0500	16.23	18.04	18.04
0530	17.17	21.25	22.87
0600	17.19	21.25	22.87
0630	17.25	21.25	22.87
0700	20.88	23.11	24.73
0730	20.88	23.27	24.89
0800	22.16	26.42	28.03
0830	20.88	24.73	26.35
0900	22.17	31.72	33.34
0930	22.17	31.72	33.34
1000	22.17	31.72	33.34
1030	20.98	31.72	33.34
1100	20.98	26.42	28.04
1130	20.98	26.42	28.04
1200	20.70	26.42	28.04
1230	20.99	24.73	26.35
1300	20.98	24.48	26.10
1330	20.88	24.48	26.10
1400	17.48	24.48	26.10
1430	17.40	24.48	26.10
1500	17.40	24.48	26.10
1530	17.40	24.48	26.10
1600	17.50	24.87	26.49
1630	17.52	37.34	38.14
1700	22.81	39.98	41.70
1730	35.01	39.74	41.74
1800	35.06	39.22	41.13
1830	32.34	28.69	30.34
1900	22.22	27.57	29.20
1930	23.14	25.94	27.56
2000	21.35	24.96	26.58
2030	22.10	24.96	26.58
2100	20.82	23.46	25.08
2130	20.82	23.46	25.08
2200	19.87	23.46	25.08
2230	17.43	23.46	25.08
2300	17.20	23.46	25.08
2330	17.17	18.10	18.10
2400	17.17	18.01	18.01

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RWE buys three energy units from Treuhand

By Judy Dempsey in Berlin

RWE Energie, Germany's largest utility, has strengthened its position in eastern Germany's energy industry by purchasing three regional utilities from the Treuhand privatisation agency.

RWE has acquired majority stakes in the ESAG utility at Cottbus in the eastern state of Brandenburg, WESAG in Leipzig, and a smaller stake in EVS, which is in the Saxon city of Chemnitz.

It will invest DM2.6bn ($1.5bn) in the companies over five years and guarantee 4,750 jobs until the end of 1998. The investments will be used for modernising and upgrading the utilities.

The deals give RWE a virtual monopoly in the generation and distribution of energy in this part of eastern Germany largely because of the electricity contract between the former west and east German governments.

Under the terms of the contract, west Germany's utility companies are legally permitted to own 51 per cent of eastern Germany's 15 utilities, with the remaining 49 per cent held by the eastern municipalities.

However, in order to underwrite investments of about DM46bn by western German utilities, the contract stipulated that eastern German utilities must buy 70 per cent of their energy from Veag, a leading east Germany utility.'

Veag is controlled by western Germany's eight electricity companies, including RWE which holds the largest stake in Veag.

Later this year, Veag is expected to be sold by the Treuhand to west Germany's utilities, while Rheinbraun, RWE's brown coal subsidiary, is leading a western German consortium to buy eastern Germany's Laubag brown coal fields.

MG Refining sacks top executives

By Laurie Morse in Chicago

Leading executives of MG Refining and Marketing, the US oil and gas arm of Metallgesellschaft group, the troubled German mining and metals conglomerate, have been sacked and a number of senior subordinates have been suspended.

Mr W. Arthur Benson, and his son, Mr William Benson, were sacked "for cause," the company said. In addition, a number of the senior Mr Benson's subordinates at MG Refining and Marketing have been suspended from their jobs.

Mr Arthur Benson was president of MG Refining and Marketing until mid-December, when he was relieved of his executive duties in the wake of an investigation by Metallgesellschaft into the unit's oil and gas dealings and related hedging strategies.

Sources said he was not asked to leave at that time because his knowledge was needed to sort out the company's tangled businesses.

Mr William Benson served as a senior vice-president and risk manager for MG Refining and Marketing.

Metallgesellschaft was gripped by a severe liquidity crisis late last year largely as a result of problems in the US. The crisis led to the replacement of the group chief executive.

China plans Yn5.5bn share issue this year

By Tony Walker in Beijing

China plans to issue Yn5.5bn (US$634m) worth of domestic shares this year to enliven its flagging securities markets. The planned figure is the same as last year.

This only refers to A-shares for Chinese nationals. No figure was provided for US$-denominated B-shares, restricted to foreigners.

"The figure has been set after fully considering the stock market's capacity," said Mr Ma Zhongzhi, a senior official of the State Council's, or cabinet, Securities Policy Committee. He said 22 Chinese companies have been selected for overseas listing this year. Officials said these were preliminary choices and it was likely that only a few on the shortlist ultimately would be allowed to list abroad.

Two businessmen in rival bids for Portuguese bank

By Peter Wise in Lisbon

Two Portuguese entrepreneurs are lining up rival bids of more than Es100bn ($574m) to wrest control of Banco Totta e Acores (BTA), a leading Portuguese retail bank, from Banesto, the crisis-hit Spanish bank.

The bids emerged following indications that Portuguese authorities may require Banesto to dispose of half its 50 per cent holding in BTA, which contravenes legislation limiting foreign ownership of the bank to 25 per cent.

Potential investors believe Banesto may sell part or all of its stake in BTA to help bolster its depleted debt to assets ratios.

Mr Eduardo Catroga, Portugal's finance minister, said he welcomed the proposals to re-establish Portuguese control of BTA. He has asked the public prosecutor's office to determine whether there are grounds for legal action to force Banesto to dispose of 25 per cent of BTA.

The Spanish bank is believed to have acquired its shareholding in BTA by funding Portuguese companies to buy equity on its behalf.

Mr Antonio Champalimaud, a Portuguese entrepreneur, has told the Lisbon government that he has raised Es50bn as the basis for a bid to acquire 51 per cent of BTA. The bank's current capitalisation on the Lisbon stock market is about Es200bn.

However, Mr Champalimaud believes it will not be difficult to find partners to mobilise Es100bn or so for the takeover bid.

Mr Jose Jose Manuel de Mello, head of a large industrial and financial group, has informed the Portuguese government of plans to make a similar bid for control of BTA.

The two entrepreneurs count on acquiring both part of Banesto's holding in BTA and the 13 per cent of its capital that is held by the state following the bank's partial privatisation in 1989.

The government said the state would only dispose of its remaining holding when a stable shareholder framework that complied with Portuguese law was established for BTA.

Banco Comercial Portuguese, a privately-owned retail bank, is believed to be another potential bidder for a controlling stake in BTA. It has yet to register an official proposal with the Portuguese authorities.

Banco Santander rises 17.8%

By Tom Burns in Madrid

Banco Santander increased net income in 1993 by 17.8 per cent to Pta77.9bn ($557m), cementing its position as front runner in the race to take control of the Banesto group should the troubled banking conglomerate be sold later this year.

Mr Emilio Botin, chairman, told the annual meeting on Saturday that he was studying the advisability of making an offer for Banesto. But he reassured the shareholders that the final decision would be dictated by the impact of such a acquisition on Santander's profits.

Mr Botin was speaking after disclosing extraordinarily good results by Santander which underlined the strength of its balance sheet and its position as Spain's leading bank.

Net interest income rose 19.3 per cent to Pta242.6bn and operating income improved 12.8 per cent to Pta137.6bn. Average total assets increased by 34 per cent to Pta8,081bn.

Mr Botin told shareholders their dividend would be going up by 12.3 per cent to Pta292 per share.

Mr Botin said the results reflected the diversification of the group's business in financial services, corporate and retail banking as well as the geographical spread of its activities. Business outside Spain, mainly in the US, Chile, Mexico and Puerto Rico, contributed 42 per cent to profits.

The group would continue to expand abroad this year, Mr Botin said. He hoped its profits this year would be shared 50-50 between domestic and foreign earnings.

"If buying Banesto means I cannot buy a bank in America, then I will not buy Banesto," Mr Botin said. "The all-important consideration [over a Banesto offer] is the price."

Under a rescue plan designed by the Bank of Spain – which is subject to the approval of Banesto's shareholders – Banesto is to be recapitalised by a Pta180bn rights issue and subsequently sold to a domestic banking group.

Banesto was the fourth largest Spanish bank. The Bank of Spain intervened at the end of last year after an inspection revealed it had heavily overvalued its assets.

● Banco Exterior de Espana, part of the Argentaria state financial group, reports pre-tax profits little changed at Pta42.7bn for 1993, against Pta41.4bn a year earlier.

EIB bites the bullet with first Greek drachma bond

Conner Middelmann assesses investors' appetite for the high coupon likely to be offered by the first international drachma bond

Years of planning are about to bear fruit as the European Investment Bank prepares to issue the first international Greek drachma bond.

"We have been trying to tap the Greek drachma market for many years, but for one reason or another we had to keep postponing our plans," said Mr Ulrich Damm, who heads the supranational agency's capital markets department.

Now those obstacles have been overcome, largely because the EIB was able to find two back-to-back borrowers in Greece who wanted to draw down loans in Greek drachma, he said.

"We will definitely come to the market," Mr Damm said. The EIB today will hold a presentation for investors and banks in Athens, and the issue is expected on Thursday.

The EIB plans to issue Dr10bn of 5-year bullet bonds. According to sources in the Eurobond market, the bonds are likely to pay a coupon of 17¾ per cent. They will be listed in Athens and Luxembourg and cleared through Euroclear and Cedel. Midland Bank Athens (part of the HSBC Group) and the Greek state-owned Hellenic Industrial Development Bank (ETBA) have arranged the deal.

Many compare the fledgling drachma bond market with the southern European markets of the late 1980's. "Back then, those currencies offered double-digit coupons, but now Italy and Spain pay about 7½ per cent and Portuguese bonds offer about 8¾ per cent, so paper yielding 17 per cent to 18 per cent will attract investors' attention," said HSBC's Mr Mark Bucknall.

Until now, foreigners haven't had easy access to the Greek bond market. Moreover, they have been put off by the unavailability of fixed-coupon bonds with maturities of more than one year.

The Greek government issues bonds with maturities of up to seven years, but bonds with maturities above one year pay floating interest rates. Their coupons are pegged to the rate on 12-month Treasury bills, which is regularly set by the Greek central bank. With one-year Treasury bills currently yielding 19.75 per cent, a five-year bond pays 200 basis points above that – 21.75 per cent.

The Greek government bond market is relatively illiquid, although increased over-the-counter inter-bank trading has begun improving the liquidity of some government bonds, especially at the shorter end of the maturity spectrum.

Greece does most of its borrowing domestically, although it has been an active issuer in the Japanese samurai market in recent years. It is said to be talking with the US Securities Exchange Commission about plans for a Yankee bond issue. The country regularly issues bonds linked to Ecu, US dollar, sterling and D-Mark which pay the interest rate a borrower with an equivalent rating would pay in each of these currencies.

Many hope that the EIB's bond will open the market for other borrowers as well as whetting investors' appetites for drachma bonds.

"The EIB bond is a relatively small issue, but I expect other issuers to follow," said a senior Athens banker. "The big question is whether the Greek government will start issuing longer-dated fixed-coupon bonds." Indeed, Greece's large budget deficit is likely to ensure that supply won't dry up.

Falling inflation and interest rates are likely to yield to solid capital gains on drachma bonds. Inflation is likely to have dropped to about 11 per cent in January, from 12.1 per cent in December, and is expected to fall to 10 per cent this year. Meanwhile, the Greek central bank recently cut its 12-month Treasury bill rate by ¼ point to 19.75 and its 3-month Treasury bill rate by one point to 17 per cent.

Of course, investors should bear in mind the currency risk associated with drachma holdings. While Greece is a member of the European Monetary System, the drachma is not in the ERM and has slipped steadily against most European currencies over the years. According to the OECD, the drachma depreciated by about 8½ per cent per year over the past two years.

However, according to HSBC's Mr Bucknall, "many investors are prepared to take a currency risk if it's compensated by a big yield pick-up over the market they're based in". Thus, for a D-mark based investor receiving a 5¼ per cent yield on five-year notes, the interest-rate differential is so large that "the currency has to devalue substantially before he starts losing money," says Mr Bucknall.

Elsewhere in the Eurobond market, the EIB is rumoured to be considering a Pta60bn ($428m) issue this week, which would make it the largest deal in the matador market to date.

MIM and Musto sign deal to develop mine

By Nikki Tait in Sydney and Bernard Simon in Toronto

MIM, the Queensland-based mining company, has signed a definitive joint-venture agreement with International Musto Exploration of Vancouver to develop the rich Bajo de la Alumbrera deposit in Argentina.

The agreement is a setback to Metall Mining, the international mining arm of Germany's Metallgesellschaft, which announced a C$332m (US$251m) hostile takeover bid for Musto last week in the hope of gaining control of the Alumbrera property.

Metall was due to launch a tender offer for Musto shares on Friday, but the company said it was weighing its options. One condition of the Metall offer was that Musto should not dispose of any large part of Alumbrera.

Metall said the agreement with MIM appeared to make Musto less attractive as a takeover target.

Alumbrera is reputed to be one of the world's richest unexploited copper and gold ore areas.

The cost of developing a mine has been put at US$600m.

MIM – which would be the operator of the mine – said it had raised the Alumbrera's projected output to 70,000 tonnes a day from 60,000 tonnes a day.

Portugal seeks Es63bn for cement group

By Peter Wise

Portugal is seeking Es63bn ($360m) from the privatisation later this year of Secil/CMP, a cement producer, even though there were no bids for the company at Es59bn in a first attempt at privatisation in 1993.

The government said limits on foreign investment would be lifted. He said the state no longer planned to retain a golden share giving it a veto over corporate decisions.

Bids are being sought for 80 per cent of the state's 58 per cent holding in Secil and its 100 per cent holding in CMP (Companhia de Maceira e Pataias).

The Markets

THIS WEEK

Global Investor / **Martin Dickson**

Fed blows off market froth

The next few days will be tense as the world waits to see just how serious a sell-off develops in stock and bond markets following Friday's surprise tightening of monetary policy by the US Federal Reserve.

Despite Friday's 96 point drop in the Dow Jones Industrial Average, the bank's ¼ percentage point increase in the Fed funds rate seems unlikely to kill off the global financial bull – though it will certainly blow away a lot of speculative froth from the beast, and that is no bad thing.

The first Fed tightening in five years is a long-term positive for the US economy and its stock and bond markets. With America leading the world out of recession, a turn in the US interest rate cycle was inevitable. Only the timing and degree of tightening were in doubt.

By taking Wall Street by surprise, with a rise in rates so small it will not jeopardise growth, the Fed has underlined its inflation fighting credentials – at a time when it was in danger of losing them – and may prolong the current economic expansion.

The recent resignation of two inflation hawks, Mr David Mullins and Mr Wayne Angell, from the Fed board had raised questions about the bank's resolve at a time when speculative funds were starting to flow into traditional inflation hedges, such as commodities.

And by taking the unusual step of formally announcing its action – rather than leaving the market guessing – Mr Alan Greenspan, the Fed chairman, may have ameliorated criticism in Congress over the bank's secrecy.

The tightening, at a time when many Wall Street analysts said one was not yet necessary, suggests the Fed expects first quarter GDP growth to come in ahead of the consensus forecast, which stands at about 3 per cent.

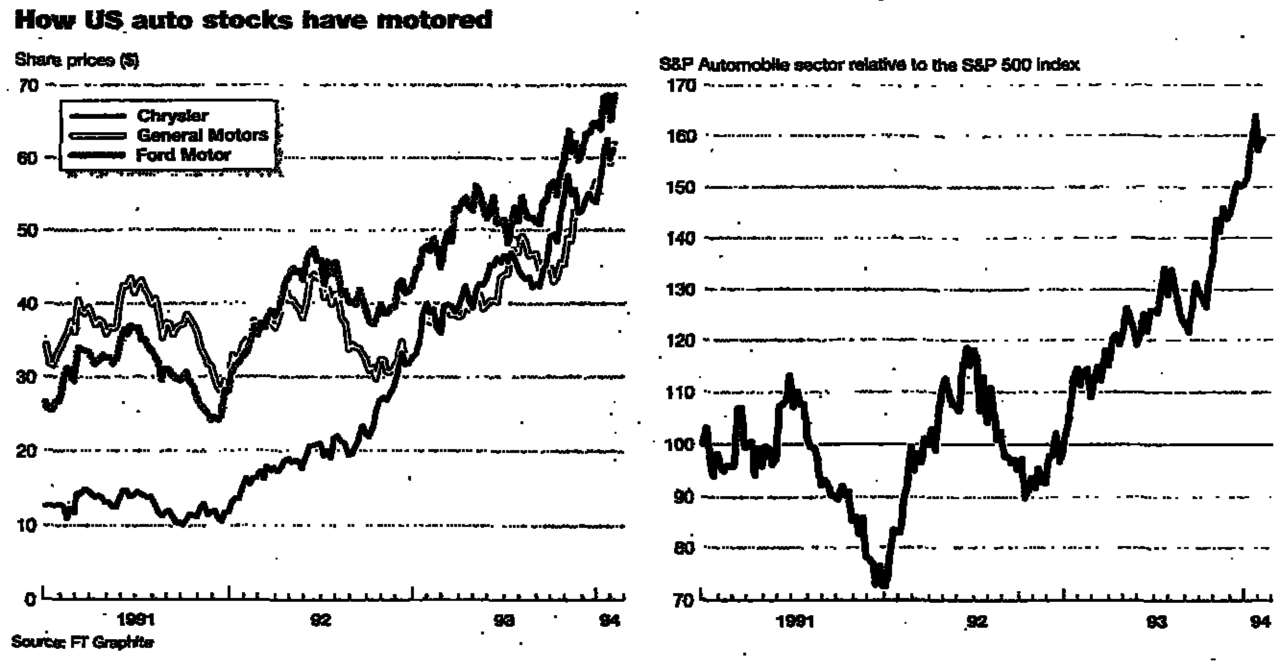
Mr David Hale, chief economist of Kemper Financial, who welcomes the Fed move as a "stitch in time," thinks GDP may be growing by as much as 4 per cent.

So the Fed's pre-emptive action may have prevented a sharp rise in long bond rates some months down the road, accompanied by a severe tightening, which would have had much more serious consequences for market confidence than Friday's move.

US Treasuries may have further to fall over the next few weeks, but the tightening means they should not move too far from their current trading range. The Fed, in other words, may have put a floor under the bond market.

Bonds could even rally later in the year. Mr John Lipsky, chief economist at Salomon Brothers, reckons that a combination of moderate economic growth, low inflation, a falling Federal deficit and sluggish international growth could push long bond yields below 6 per cent again, though that is a minority view.

How US auto stocks have motored



Source: FT Graphite

■ Equities

It is hardly surprising that the Fed's move should have knocked some stuffing out of the equity market. After the sharp run up of the past few weeks US stocks are very generously valued by historic standards. And turns in the interest rate cycle have traditionally been accompanied by market corrections.

However, this cycle is different in one important respect: the explosive growth of the mutual fund industry. US households have moved a large proportion of their liquid assets from bank deposits and money market funds into mutual funds in a search for higher returns, as US interest rates have fallen in recent years.

Over the past year these funds have moved large amounts of money into overseas markets, triggering huge increases in valuations in volatile, illiquid emerging markets.

A key question now is the extent to which these investors take fright at falling equity prices and pull funds from the market, thus accentuating its fall; or repatriate funds to the US in the expectation that Friday's sharp rise in the dollar is symptomatic of a long period of appreciation; or move cash back into money funds as interest rates rise.

A mere 25 basis points on Fed funds is in itself not going to trigger such action, but many Wall Street analysts think further tightening could push the rate to between 3.5 and 4 per cent by the end of this year. The Fed will need to move gingerly in the months ahead if it is not to spook the equity markets. That said, a slowdown, if not reversal, of the flow of cash into the mutual fund industry is to be welcomed, since it may deflate a worrying speculative bubble.

At least, the Fed's action will slow the upward momentum of both US and foreign equity markets, since any increase now will have to be based on higher earnings potential, rather than driven by market liquidity. That bodes fairly well for the US, where corporate profits are rising healthily. Europe may fare less well, and some of the most speculative Third World markets could lose a great deal of fizz.

■ GM and Ford

The importance of strong earnings potential should be underlined this week when America's two largest car manufacturers, General Motors and Ford Motor, announce fourth quarter results. Both are expected to produce greatly improved profits, following the example set by cross-town rival Chrysler in January.

So is it time for investors to take profits and lighten holdings of US automotive stocks, which have outperformed the market over the past year, with GM and Chrysler up by more than 50 per cent, and Ford up by 38 per cent?

Almost certainly not. For the auto companies are in the early stages of a cyclical upswing as cheap loan rates and rising consumer confidence push up US sales of cars and light trucks. The industry expects sales to peak in about 1996-97 at approximately 17m units a year – beating the 16m record set in 1986 – which allows a window of perhaps 18 months for the shares to outperform the market.

Sales are expected to rise 7 per cent this year, to about 14.8m vehicles, and the pace could prove even stronger. So far the recovery has lagged previous upturns, and there are an abnormally high number of rust-buckets cruising America's highways which are likely to be replaced.

Rising demand means Detroit can reduce the large discounts it has had to offer to shift vehicles from dealers' forecourts, while the rise in the yen (now going into reverse) has helped make Japanese cars more expensive than their US rivals (the price differential averages about $2,500), which has helped Ford and Chysler win big market share gains.

Add to this large gains in Detroit's efficiency (due to the twin challenges of recession and Japan), together with some upturn in the European market in 1995, and you have a recipe for a sharp rise in profits. Ford looks the most attractive of the trio in 1994. Its earnings have not reflected its strong market share gains in recent quarters, but that may be about to change.

■ Market Mania

With immaculate timing, The Bank Credit Analyst, the Montreal-based research firm, has just issued a strong warning about the rush into mutual funds and emerging markets, and forecasts that this "financial mania" will end in a US market correction of between 10 and 15 per cent.

It points out that the shift into mutual funds is finite and will stop when bank deposits have been reduced to a core level. Then, which may be soon, the equity market will be particularly vulnerable.

However, the Analyst argues that any correction will probably be short-lived. The bull will revive, partly because Europe will follow America's move into mutual funds as interest rates there continue to fall. To support this idea, it points to a close historic correlation between US and UK household holdings of securities.

It is an interesting theory, though it perhaps gives too little weight to Europe's traditional lack of enthusiasm for equity investments, which contrasts sharply with American shareholder democracy.

The Analyst sees non-US mutual fund investment propping up the bull market for a couple more years, before the mania ends in a "climactic blow-off." Of such stuff – and not a ¼ point on Fed funds – are market nightmares made.

Total return in local currency to 3/2/94

	% change over period					
	US	Japan	Germany	France	Italy	UK
Cash						
Week	0.06	0.04	0.12	0.12	0.16	0.10
Month	0.27	0.20	0.51	0.54	0.70	0.46
Year	3.63	3.28	7.19	9.69	11.68	5.63
Bonds 3-5 year						
Week	-0.39	-0.49	-0.21	-0.09	0.23	0.04
Month	0.76	-1.99	-0.05	-0.15	0.90	0.27
Year	7.36	7.57	16.41	11.47	25.60	10.60
Bonds 7-10 year						
Week	-0.48	-0.39	-0.39	0.03	0.19	-0.21
Month	1.19	-3.32	-0.18	-0.47	0.91	-0.45
Year	10.95	9.31	21.00	14.50	36.56	17.49
Equities						
Week	-0.3	-0.9	0.1	1.0	3.8	-0.9
Month	0.7	8.9	-5.3	1.8	2.9	2.2
Year	10.4	23.2	36.6	37.8	39.7	28.4

Best performing stocks from FT-A World Indices in local currency to 3/2/94

		% change		
	Close	Week	Month	Year
Tasman Properties (NZ)	0.05	66.7	66.7	-54.5
Carena Dev. Corp. (Can)	2.25	28.6	60.7	0.5
Mycom (Mal)	6.40	28.5	0.87	171.2
British Aerospace	553.00	26.3	33.9	92.75
MISC (Mal)	9.60	25.0	4.08	30.43
Corporate Inv. (NZ)	0.52	23.8	62.5	86.7
Fuji Heavy Ind. (Japan)	387.00	22.9	35.8	7.54
Nitsuko (Japan)	1,350	22.7	75.6	140.6
Central Finance (Japan)	518	22.2	57.0	75.6
Japan Metals & Chem.	643.00	21.3	32.9	4.2

Source: Cash & Bonds - Lehman Brothers. Equities - © NatWest Securities. The FT-Actuaries World Indices are jointly owned by The Financial Times Limited, Goldman Sachs & Co., and NatWest Securities Limited.

Economics Notebook / **Peter Norman**

Race for top job raises profile of the OECD

For years the Paris-based Organisation for Economic Co-operation and Development has seemed the cinderella of the international bodies set up after the second world war to help manage the global economy.

Without the financial largesse of the World Bank, the intimidating prescriptive mandate of the International Monetary Fund or the high profile negotiating role of the General Agreement on Tariffs and Trade, it has been easy to dismiss the 24-nation OECD as a mere talking shop, tucked away in one of the more desirable residential areas of Paris.

But suddenly there is a rush of high level candidates for the OECD's top job, which falls vacant in September.

As soon as the UK government disclosed last week that Lord Lawson, the former chancellor, was seeking the post, others came forward or confirmed long nurtured ambitions to be OECD secretary general.

Mr Jean-Claude Paye, the French diplomat who has held the post since 1984, confirmed that he would seek another five-year term. Already in the field was Mr Donald Johnston, a little-known former middle ranking Canadian economics minister, who has been given assurances of US support. Germany put forward Mr Lorenz Schomerus, a senior economics ministry official, who has been closely involved with the OECD since 1987.

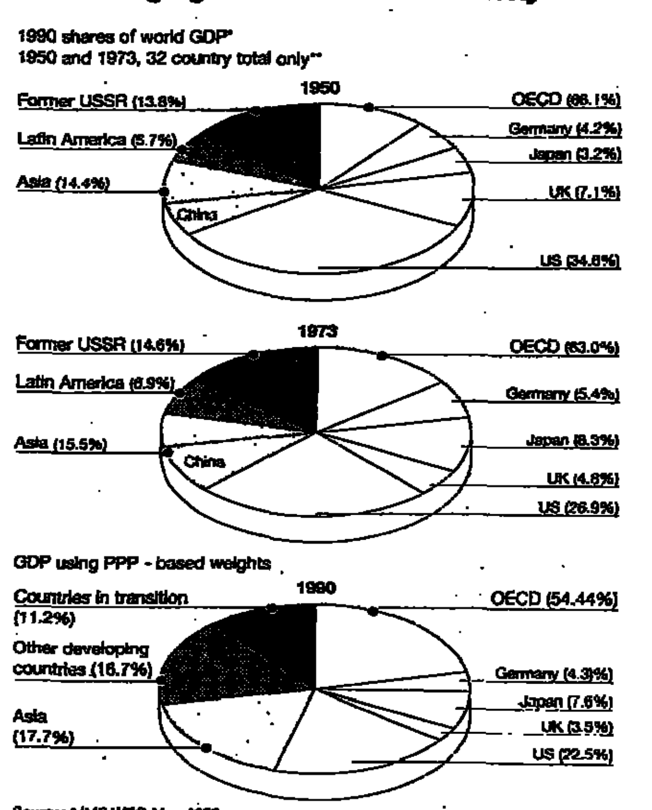
At first sight, the story might seem a familiar one of the great and good jockeying for a comfortable, well paid tax-free post in one of the world's more agreeable capitals. But the global economy is in a period of profound and radical change and the OECD, which exists to promote co-operation among its industrial member states, is swept up in these developments.

How its shareholders respond to the choice of candidates will determine how the organisation evolves into the next century. The British argue that Lord Lawson is the ideal candidate. Officials make much of his vast experience and suggest that the OECD has adopted too low a profile under Mr Paye. With Lord Lawson in charge, they say, the organisation would be given a new sense of direction.

It is indisputable that Lord Lawson is fascinated by public policy issues. Although the last years of his chancellorship were marred by rising inflation and cabinet discord, his tax reforms were bold and innovative. He moved decisively to strengthen the UK economy through micro-economic measures and apparently feels that other industrialised countries could benefit from this experience. As chancellor, he was active on the international stage and has since become involved with central and eastern Europe – also a preoccupation of the OECD.

The British government also has an obvious, but unstated desire to increase high level UK representation in international organisations and so dilute France's dominant hold over such posts.

The changing shares of world activity



Source: * IMF WEO May 1993. ** A. Maddison, "The World Economy in the 20th Century", OECD 1989.

In promoting Lord Lawson's candidacy there is a clear presumption in Whitehall that the OECD needs a high profile, heavyweight political figure in charge who can knock heads together if necessary.

But does it? Political clout is a necessary adjunct to negotiating with and among governments, and is very important when an organisation has money to disburse. It is helpful in the cases of the IMF managing director and World Bank president. Mr Peter Sutherland's political background and experience served him well as GATT director general in the final stages of the Uruguay Round trade negotiations.

But it is not so self evident that the OECD secretary general needs to be a political heavyweight. The OECD has no big money to dispense. More than 75 per cent of its FFr1.58bn (£170m) annual budget is expenditure on personnel and pensions for its 1,900 staff. Its work involves policy analysis, gathering statistics and organising meetings. Publications are the main tangible result of its efforts.

Some OECD countries actually favour its low profile, arguing that the organisation should think of itself as the wholly-owned subsidiary of its 24 industrial member governments. They value the non-partisan analysis of the OECD secretariat, which can cover issues ranging from macro-economics to trade, the environment, education, health and technological change.

This does not mean the OECD cannot be innovative. The organisation's work in the 1980s in assessing the cost of agricultural subsidies was a genuine breakthrough that helped bring the GATT talks to a successful conclusion.

The OECD has also changed rapidly, forging close links with eastern Europe and the fast developing countries of east Asia and Latin America. One result is that its work on eastern and central Europe has expanded to account for 10 per cent of its activities as measured by the budget compared with nothing four years ago.

The accompanying charts show how the industrial world's share of global output has declined since the early post war years. But instead of diminishing interest in the OECD, this shift of economic power has triggered growing awareness of the organisation among non-member states. Membership negotiations are underway with Mexico. South Korea would also like to join, as would Poland, Hungary and the Czech republic.

Last week, Mr Paye cited the list of aspiring member states in support of his own candidacy and as evidence that the organisation must be doing something right.

That view will not guarantee his re-selection. There will be much horse trading in the months ahead, and there is a strong feeling in the US that the OECD has been a European fiefdom for too long.

But at present, with one strong political candidate against three *eminences grises*, the odds seem weighted against the organisation taking a radical change of direction.

This is Peter Norman's last notebook until after Easter when he returns from sabbatical.

EMERGING MARKETS: This Week

The Emerging Investor / Victor Mallet

Warning bells for Thai convertibles

For the past nine months, European investors wanting to profit from south-east Asia's equities boom while protecting themselves from the worst of the dangers of a market crash have been enthusiastic buyers of convertible Eurobonds issued by large Thai companies and quoted in London.

The primary market in such bonds – which are usually denominated in US dollars and convertible into shares at a fixed value above the current share price – is likely to reach a peak in the next few months before tailing off towards the end of the year.

Liberated by new financial services laws, Thai companies raised the equivalent of $1.4bn (£930m) through these so-called euroconvertible debentures in 1993, but the country's regulatory authorities have begun to sound warning bells about the risks of issuing too many bonds in too short a time.

Next in line is Bangkok Bank, Thailand's largest bank and a prime blue chip company, which plans to raise between $400m and $500m through a convertible bond issue to expand its capital base.

Bangkok Land, the country's biggest property company, has already gone to the convertible bond market for $130m, but wants to raise a further $600m. Thai Airways International is also considering an issue of about $200m.

The convertible bonds of blue chip Thai companies are popular with investors – especially the cautious Swiss who hesitate to invest directly in volatile equity markets, stockbrokers say – because the right to convert into shares gives the holder the chance to profit from a rising stock price with only limited exposure (in the form of a falling bond price) to the risks of a decline.

Even if one discounts the equity conversion "sweetener," usually the main attraction of such issues, the interest rates paid by the Thai bonds (usually between 3 and 5 per cent) provide a satisfactory return compared with US dollar rates elsewhere. There is also an active secondary market.

Thai companies favour the bonds over domestic bank borrowing because they can obtain funds at a fixed rate of interest and at less than half the present cost of a bank loan in Thai baht. The main disadvantage, from their point of view, of the bond is the future dilution of their stock when conversion rights are exercised – although because the conversion is at a premium to the current share price the dilution is smaller than if stock was issued at current prices.

In recent weeks, however, brokers and government officials in Thailand have expressed concern about the dangers of the put options which many Thai issuers – nine out of 17 in 1993 – have added to the bonds to reassure potential investors.

Ten best performing stocks

Stock	Country	Friday $ close	Week on week change $	%
Eczacibasi Ilac	Turkey	0.8298	0.2407	40.87
Ege Biracilik	Turkey	2.5879	0.6339	32.44
Doktas	Turkey	1.2377	0.2607	26.68
Ssangyong Oil	S.Korea	28.7271	5.7116	24.82
Ssangyong Cement	S.Korea	41.2333	8.1949	24.80
Yukong	S.Korea	68.4745	12.9155	23.25
Usiminas	Brazil	0.0011	0.0002	22.95
Oriental Petroleum	Philippines	0.0030	0.0006	22.67
Cia de Aceros Del Pacifico	Chile	5.4098	0.8591	18.88
Leader Universal Holdings	Malaysia	5.2774	0.8233	18.49

Source: Baring Securities

The put option allows the holder to redeem a bond early – typically after five years for a 10-year bond – at a fixed price at a premium to the issue price. Holders would normally exercise this right if the share price failed to rise enough to merit a conversion into shares.

A put option makes a bond more saleable, but the company faces the possibility of having to repay the entire bond issue on the put option exercise date, a situation which caused severe financial difficulties for some British companies after the 1987 stock market crash.

Some brokers say it is hard to imagine Thai stock prices failing to rise enough in five years to reach the conversion price. Conversion premiums over the price at the time of issue are rarely more than 20 per cent, and many holders of bonds issued last year by Land and House, the property developer, have already converted following the surge in the Thai stock market.

Other brokers are more cautious. "Thai companies have this optimistic view that their share prices will always go up and up," says one foreign stockbroker in Bangkok. It has been suggested that auditors should force companies to set aside reserves each year as if the put payments will have to be met on the due date, but the idea is unlikely to be adopted in Thailand and undermines the purpose of borrowing the money in the first place.

Thailand's Securities and Exchange Commission is worried not only about the risks to companies of the put options but also about the country's finances. "Many of them [the bonds] are bunching up, particularly the ones with put options," says Mr Rapee Sucharitakul of the SEC. "It could affect the inflow and outflow of capital from the country if we're not careful."

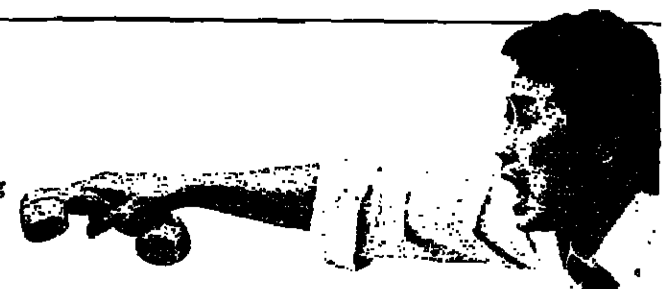
The SEC has drafted a new regulation which should come into force within weeks to oblige companies to improve their disclosure on the effects of convertible bond issues. The companies will have to explain to shareholders both the potential earnings dilution effects of the issue and the possible results of early repayment of the debt. They will also have to inform the Bank of Thailand about new issues.

After a few more big issues, the ardour among both issuers and buyers for new convertible Thai eurobonds is likely to cool.

Most Thai companies with sufficient standing to raise money in this way have either issued bonds or announced their intention to do so, and a rise in US interest rates would make such instruments less attractive for the borrower.

Furthermore, the market in London might, in the words of one broker, "be getting slightly saturated". Some Thai convertibles are already trading at a small discount to their issue price.

"We're going to see fewer and few issues from the second half of this year," says one investment banker in Bangkok. "But there will be a continuing trickle and an active secondary market. Then in a few years we're going to have the refinancing issues."



News round-up

■ Strategy

The rise by the US Federal Reserve late on Friday of interest rates caused little surprise among most emerging market strategists.

Mr Kevin Smith, a fund manager of Foreign and Colonial in London, commented just after the announcement that he did not expect the impact on Asian equity markets today to trigger a major sell-off. However, he said that the most vulnerable markets would be those with dollar exposure, such as Hong Kong, Thailand and Malaysia.

■ Russia

The government minister responsible for the privatisation programme has said that he hopes it will proceed, in spite of the country's political difficulties. The privatisation process started in late-1992, when vouchers were distributed which could be swapped for shares in state firms. Several oil and energy enterprises, a big car plant in Ulyanovsk, and the Novorossiisk shipping company are among the companies to be opened to public ownership.

■ Zimbabwe

The country's equity market remained strong last week – the industrial index almost attaining the 3,100 level – with some analysts forecasting that 4,500 would be breached this year.

Mining shares have attracted investors with the sub-index also setting a new record high.

Financial reforms, which were announced at the start of this year, falling inflation and lower interest rates have also underpinned the market.

■ SE Asia

Union Bank of Switzerland has signed a joint venture agreement with Finance One, the Thai financial services group.

UBS will acquire 15 per cent of the expanded capital of Finance One's subsidiary, Thana One Finance and Securities. The price was not announced, but stockbrokers in Bangkok said UBS would pay Bt300m ($11.8m) for the first 5 per cent tranche.

■ Bolivia

A privatisation programme is in the early stages, with the government of President Gonzalo Sánchez de Lozada planning to sell-off six state companies.

Under the scheme investors, to be selected by an international bidding process, are expected to take up to half the equity in each company at no cost, but would then have to invest in them. The remaining equity would be divided among local investors, and kept in private pension funds.

■ Seoul

Standard Chartered reports that the stock exchange will be seeking a 30 per cent deposit from institutional investors – including foreigners – before a purchase order for shares is made. This measure has been imposed in an effort to cool the market which, according to IFC data, rose 10 per cent in dollar terms last month.

■ East Europe

Another fund has been launched to tap the investment potential of central and eastern European countries. CS First Boston and Cazenove are seeking to invest in listed companies, and the $200m fund is expected to be the biggest of its kind.

Some $150m is expected to come from international institutions, and the rest from the retail community.

● Further coverage of emerging markets appears daily on the World Stock Markets page.

Baring Securities emerging markets indices

Index	4/2/94	Week on week movement Actual	Week on week movement Percent	Month on month movement Actual	Month on month movement Percent	Year to date movement Actual	Year to date movement Percent
World (239)	181.80	7.79	4.48	12.78	7.56	13.39	7.95
Latin America							
Argentina (19)	133.71	9.93	8.02	16.83	14.39	18.33	15.89
Brazil (18)	186.84	8.66	4.86	51.75	38.31	47.19	33.79
Chile (12)	186.15	16.75	9.89	33.37	21.84	38.61	26.17
Mexico (22)	177.58	7.48	4.40	22.09	14.21	16.32	10.12
Latin America (71)	176.05	9.33	5.60	29.79	20.36	26.81	17.96
Europe							
Greece (14)	100.10	2.62	2.68	13.86	16.07	17.00	20.46
Portugal (13)	129.13	2.72	2.15	13.58	11.75	17.01	15.17
Turkey (22)	122.99	-2.92	-2.32	-50.16	-28.97	-38.73	-23.95
Europe (49)	117.48	1.54	1.33	0.18	0.15	5.24	4.67
Asia							
Indonesia (17)	181.15	3.04	1.71	6.68	3.83	10.11	5.91
Korea (23)	131.24	8.06	6.55	21.37	19.44	21.54	19.64
Malaysia (21)	226.28	11.50	5.36	-34.21	-13.13	-26.77	-10.58
Philippines (9)	288.40	5.03	1.77	-46.50	-13.88	-34.07	-10.57
Thailand (20)	235.35	-9.28	-3.79	-43.96	-15.74	-28.21	-10.70
Taiwan (29)	162.02	9.75	6.40	8.31	5.40	8.31	5.40
Asia (119)	210.52	6.47	3.17	-17.38	-7.62	-10.90	-4.92

All indices in $ terms, January 7th 1992=100. Source: Baring Securities

CURRENCY MARKETS

Strong dollar to dominate markets

A strong dollar will dominate foreign exchange markets this week after Friday's tightening of monetary policy by the US Fed caused a sharp rise in the US currency.

Focus will now shift to the Bundesbank to see how the it responds.

The D-Mark lost more than 3 pfennigs to trade on Friday evening around the DM1.76 level.

The Bundesbank has recently been under pressure to cut rates, but the strength of the dollar will have made it more difficult to ease policy.

Although the D-Mark weakened against most ERM currencies on Friday, it may benefit this week from a flight into quality as investors respond to the greater uncertainty by abandoning some of the weaker ERM currencies such as the Spanish peseta.

Analysts cautioned that markets should not get too bearish about the prospects for European currencies after the US move.

Mr Steve Hannah, head of research at IBJ, said conditions in Europe remained very disinflationary, and there was still scope for these countries to ease monetary policy. The market has recently responded positively to rate-cuts in Spain, Belgium and Denmark.

Mr Hannah said he felt the market had been too pessimistic in its reaction to the US news. Interest rate futures in the UK, Germany and France all fell sharply on Friday's news. The June contracts in the UK and France, for example, both fell by seven points.

Attention will switch back to the US on Friday for the release of the important Producer Price figure. If it is low, it will show that the Fed has acted in a pre-emptive fashion and that raising rates is a real tightening. Less bullish for the currency would be a high PPI number suggesting that the Fed was responding to inflationary pressures.

Also in the spotlight will be the Canadian dollar, which plummeted on Friday after Mr Paul Martin, the Canadian finance minister, said their interest rates might go lower than those in the US. Traders said the central bank was forced to intervene to stabilise the currency. Observers said there was a real prospect of the Canadian currency going into free fall this week.

Another area of attention will be Japan/US relations with President Clinton and Mr Morihiro Hosokawa, the Japanese prime minister, scheduled to meet for trade talks in Washington on Friday.

Philip Gawith

FT GUIDE TO WORLD CURRENCIES

The table below gives the latest available rates of exchange (rounded) against four key currencies on Friday February 4, 1994. In some cases the rate is nominal. Market rates are the average of buying and selling rates except where they are shown to be otherwise. In some cases market rates have been calculated from those of foreign currencies to which they are tied.

Country	Currency	£ STG	US $	D-MARK	YEN (X 100)
Afghanistan	(Afghani)	2721.68	1824.43	1050.66	1687.97
Albania	(Lek)	164.67	110.383	63.5685	102.127
Algeria	(Dinar)	35.9284	24.0838	13.8735	22.2825
Andorra	(Fr Fr)	8.7897	5.892	3.394	5.4513
	(Sp Peseta)	209.710	140.575	80.9784	130.061
Angola	(New Kwanza)	10199.4	6836.99	3938.45	6325.8
Antigua	(E Carr $)	4.0419	2.7094	1.5607	2.5067
Argentina	(Peso)	1.4889	0.998	0.5749	0.9234
Aruba	(Florin)	2.6798	1.7962	1.0347	1.6618
Australia	(Aus $)	2.0863	1.3985	0.8056	1.2938
Austria	(Schilling)	18.2216	12.2145	7.0361	11.3009
Azores	(Port Escudo)	260.705	174.759	100.67	161.688
Bahamas	(Bahama $)	1.4918	1	0.576	0.9252
Bahrain	(Dinar)	0.5624	0.3769	0.2171	0.3487
Balearic Is	(Sp Peseta)	209.710	140.575	80.9784	130.061
Bangladesh	(Taka)	58.6278	39.3	22.6388	36.3605
Barbados	(Barb $)	3.0109	2.0183	1.1626	1.8673
Belgium	(Belg Fr)	53.3617	35.77	20.6053	33.0945
Belize	(B $)	2.9940	2.0069	1.1561	1.8568
Benin	(CFA Fr)	878.97	589.201	339.41	545.131
Bermuda	(Bermudian $)	1.4918	1	0.576	0.9252
Bhutan	(Ngultrum)	46.7959	31.3687	18.07	29.0226
Bolivia	(Boliviano)	6.6982	4.49	2.5864	4.1541
Botswana	(Pula)	3.8623	2.589	1.4914	2.3953
Brazil	(Cruzeiro Real)	737.602	494.438	284.821	457.456
Brunei	(Brunei $)	2.3691	1.588	0.9148	1.4693
Bulgaria	(Lev)	39.65	26.5789	15.3108	24.5908
Burkina Faso	(CFA Fr)	878.97	589.201	339.41	545.131
Burma	(Kyat)	9.4775	6.353	3.6598	5.8778
Burundi	(Burundi Fr)	395.25	264.949	152.624	245.131
Cambodia	(Riel)	5239.50	3512.2	2023.21	3249.5
Cameroon	(CFA Fr)	878.97	589.201	339.41	545.131
Canada	(Canadian $)	1.9824	1.3289	0.7654	1.2294
Canary Is	(Sp Peseta)	209.710	140.575	80.9784	130.061
Cp. Verde	(CV Escudo)	111.077	74.4583	42.8915	68.8882
Cayman Is	(CI $)	1.2275	0.8228	0.4739	0.7612
Cent.Afr. Rep	(CFA Fr)	878.97	589.201	339.41	545.131
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

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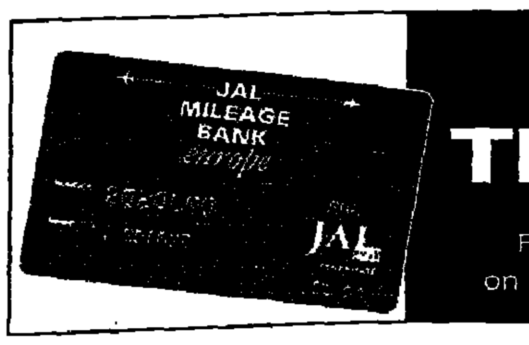


WORLD BOND MARKETS: This Week

NEW YORK — Patrick Harverson

Last week, the Federal Reserve surprised the bond market by tightening monetary policy as a precautionary move against inflation. The central bank said it was not so much worried about inflation now, or over the next few months, but about what inflation might do in the longer term if the economy continued to grow at its heady pace.

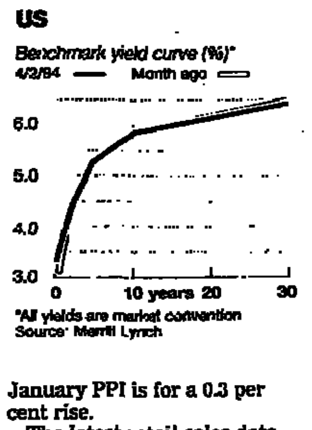
On Friday, fixed-income investors will be able to judge for themselves if the Fed's optimism about the short-term outlook for inflation is well-placed when the January producer price index is released.

Wall Street analysts are not expecting the PPI to be as weak as it has been lately (it posted a fall in December), and some are even forecasting a rise of as much as 0.6 per cent.

If it is at or above that level, investors could offload more bonds on the market in the expectation of further rate rises from the Fed. The consensus forecast for the January PPI is for a 0.3 per cent rise.

The latest retail sales data will be released alongside the PPI report. The harsh weather is expected to have dampened sales in January, and analysts are forecasting a fall of between 0.3 per cent and 0.8 per cent, against the 0.8 per cent rise in December.

Attention on Thursday will focus on the year's first auction, of $11bn in 30-year bonds.



*All yields are market convention
Source: Merrill Lynch

LONDON — Philip Coggan

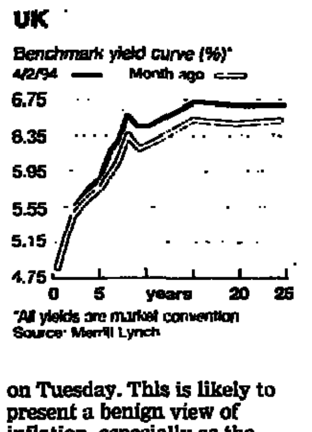
Gilts are likely to face a difficult week after the gloomy news on international interest rates. The Bundesbank's decision to leave rates unchanged and the Fed's move to tighten US monetary policy seem to have reduced the prospects of a cut in UK rates.

Debate will concentrate on whether the Fed move is a turning point and heralds the end of the long bull market in international bonds. Gilt sentiment may accordingly be dominated by the reaction of the US and German government bond markets.

Gilt enthusiasts will emphasise the positive UK economic background and the level of real yields which are relatively high, in historical term. Bears may see worrying signs in the government's easy acceptance of the public sector pay deal.

With little UK economic news to go on, the week's main event will be the Bank of England's inflation report, out on Tuesday. This is likely to present a benign view of inflation, especially as the outlook has improved since the last report in November.

However, last week's Treasury monetary report painted an upbeat picture of economic growth, indicating that the Bank may keep rates unchanged for the moment. A March/April cut, to soften the impact of the forthcoming tax package, continues to be favoured by the markets.



*All yields are market convention
Source: Merrill Lynch

FRANKFURT — David Waller

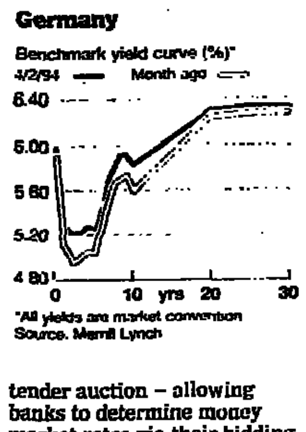
Fortunes of the German bund market are closely tied to those of US markets and the Federal Reserve's move to tighten interest rates on Friday will have repercussions for German government securities.

In addition to digesting the US move, the bund market will be looking for domestic signs that the Bundesbank will be able to resume cutting interest rates at the next meeting of its policy-making council on February 17.

Positive developments on the wage front – particularly in respect of engineering workers who are today resuming talks for a settlement in the state of North-Rhine Westphalia – will encourage hopes that the Bundesbank will cut rates.

Equally important will be the nature of the German central bank's security repurchase operations tomorrow. After months in which the Bundesbank has fixed the repo rate at 6 per cent, a move to a variable tender auction – allowing banks to determine money market rates via their bidding – is likely to be interpreted as a signal that the Bundesbank is preparing itself for a cut in the discount rate.

If there is a cut there should be a reversal of some of the downwards price pressure which has afflicted government bunds since December's poor money supply data were released last Thursday.



*All yields are market convention
Source: Merrill Lynch

TOKYO — Emiko Terazono

The implications of high bond issuance following the government's plan to reduce income tax will continue to weigh heavily on bond prices this week.

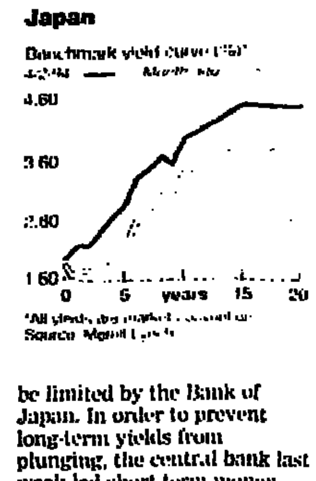
Although politicians are still haggling over the financing of the tax cut after the first three years of its implementation, it is likely that the first few years will need to be funded by short-term government bonds.

The Socialist Democratic Party's opposition to a rise in the sales tax in 1997 may mean that the period where the tax cut will be funded by government bonds may be longer than expected. Aside from the tax cut, the Y9,100bn spending by the government will increase bond supply.

If long-term yields remain at current levels this week, the long-term credit banks are expected to raise long-term prime rates, or long-term lending rates for first-tier clients.

A sharp sell-off of bonds may be limited by the Bank of Japan. In order to prevent long-term yields from plunging, the central bank last week led short-term money market rates lower through its money market operations.

However, with only six weeks left until the March year-end, institutional investors are unlikely to increase their positions, and the market is expected to fluctuate on light trading within a narrow range.



Capital & Credit / **John Murray Brown**

Turkey searches for central bank chief

The search is on for a central bank governor in Turkey following the resignation of Mr Bülent Gültekin last week. One man who fancies his chances is the head of the Treasury, Mr Osman Unsal, a 39-year-old former Citibanker well-known in the international bond market as the ringmaster of Turkey's foreign debt programme.

A man with expensive tastes and who favours monogrammed cuffs on his shirts, Mr Unsal has one advantage over his peers: he can work with the prime minister, Mrs Tansu Çiller. This is something Mr Gültekin admitted he was unable to do.

Unlike the former governor, Mr Unsal was quick to grasp that, as far as economic policy goes, it is Mrs Çiller who calls the shots. But then, she was his professor at university.

In the wake of last month's liquidity crisis and the subsequent devaluation of the lira, Mr Unsal will need all his powers of persuasion to win over his critics, particularly the foreign banks which are reappraising Turkish risk.

His debt plan has been to limit the government's domestic borrowing while increasing its foreign debt in an effort to edge down domestic interest rates. He has argued that the high level of domestic debt has been the main reason for Turkey's runaway budget deficit and inflation.

He has shifted the emphasis from syndicated loans to bond issues. Having secured an investment-grade rating in 1992 from Moody's and Standard & Poor's, the two leading credit rating agencies, Turkey has frequently tapped the Samurai market, Japan's domestic market for foreign borrowers, and has also issued Eurobonds in D-Marks and sterling.

His strategy has helped diversify the investor base and improve the maturity and term structure of the national debt. The move may have curbed the volatility in debt servicing but the debt has risen rapidly. Total external borrowing – public and private – has increased to an estimated $64bn at the end of last year from $54bn at the end of 1992 and is forecast to reach $68bn in 1995.

The policy has been driven by twin imperatives – to maintain reserves at a time of a large current account deficit and to avoid overloading the domestic capital market. Domestic rates have eased through much of 1993, helped by the decrease in domestic borrowing. In addition, the government cancelled the regular Wednesday auction of bills nine times in the past three months in an attempt to make the banks take longer-term paper.

Sticking to this policy has required some nerve. On one occasion Mr Unsal telephoned to cancel the weekly auction while in mid-air to Japan, promising worried Treasury colleagues that he would return with "a suitcase full of money".

This "can-do," sometimes cavalier, approach may have won him Mrs Çiller's admiration, but it has worried a number of Turkish and foreign economists. Some maintain it may have contributed to Turkey's recent currency crisis.

Certainly, the catalyst for the run on the lira was the decision by the two rating agencies to downgrade Turkey's credit rating, in Moody's case to sub-investment grade. But by cancelling the auctions, the government deprived itself of one tool with which to control liquidity. When the Treasury also resorted to increasing advances from the central bank to finance the budget, the result was a market awash with lira.

To bolster the lira, the authorities raised rates sharply. Interest on three-month bills rose to 99 per cent last week while interbank rates touched 600 per cent. What is more, the devaluation, which adds to Turkey's debt servicing, has put budget projections further out of kilter.

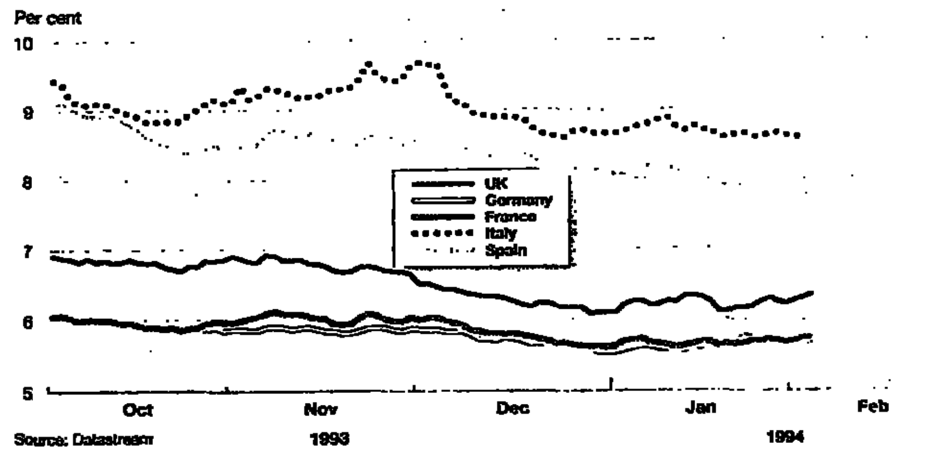
While most of the government appears dazed by the events of the past two weeks, Mr Unsal has not lost his stride. This month, Turkey will raise a further $750m equivalent in the Samurai market. It intends to launch its first offering of global bonds which is expected to raise up to $1bn.

How Mr Unsal salvages the situation is hard to predict. He has few friends within Turkey's powerful civil service. Many senior civil servants, jealous of his meteoric rise up the ranks thanks to Mrs Çiller's patronage, want him to be replaced.

He does not have much support in parliament either. Members of parliament foiled an attempt by Mrs Çiller to secure him the job as head of the Treasury by drafting a special decree citing the rulebook on civil service appointments. This tactic showed up that Mr Unsal's years in the civil service were not sufficient to warrant such a senior position. Today he is still only acting under-secretary for the Treasury and foreign trade.

However, to those who know him, his political ambition remains as strong as ever. As one former Citibank colleague put it: "He was the only one of us who had a career plan and I don't think his plan is over".

10 year benchmark bond yields



Source: Datastream

INTEREST RATES AT A GLANCE

	USA	Japan	Germany	France	Italy	UK
Discount	3.00	1.75	5.75	7.00[1]	8.00	5.50[2]
Overnight	3.25	2.25	6.00	6.40	8.43	4.44
Three month	3.28	2.18	5.75	6.34	8.31	5.31
One year	3.83	2.12	5.25	5.58	7.81	5.31
Five year	5.30	2.82	5.25	5.36	8.25	5.87
Ten year	5.88	3.53	5.79	5.85	8.59	6.43

(1) France-Repo rate. (2) UK-Base rate. Source: Reuters

US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est vol	Open int
Mar	115-29	114-28	-1-03	117-02	114-24	428,453	341,353
Jun	114-27	113-27	-1-02	115-27	113-23	6,847	24,518
Sep	-	112-31	-1-00	114-20	112-27	-	-

UK GILTS PRICES

Notes	Price £	Wk % +/-	Amnt £m	Interest due	Last xd	City line
Shorts" (Lives up to Five Years)						
Treas 14½pc 1994‡‡	100xd	-.9	550	Mr1 Se1	26.7	1307
Exch 13½pc 1994	101[illegible]	-.2	1,100	Ap27 Oc27	20.9	1267
Treas 11½pc 2001-4	127[illegible]	-1.0	1,620	Mr19 Se19	13.8	1290
Funding 3½pc '99-4	83[illegible]	-1.7	543	Ja14 Jy14	8.12	1274
[illegible]						

International

Great bull run may have lost steam

Many analysts on Wall Street believe that when the Federal Reserve raised its Fed funds rate target to 3¼ per cent on Friday from 3 per cent, bond traders sensed that the end had finally come. The end, that is, of a bull run in the US Treasury market which has lasted more than three years. The rally has exceeded the expectations of analysts, many of whom were calling the end of the bull market a year ago.

It is not unexpected: 10-year US bond yields backed up ½ a point at the end of last year, as strong economic data convinced traders that a change in Fed policy was on the way.

Friday's move may have been the first of several policy tightenings designed to head off the threat of inflation.

Mr Dick Hoey, a fund manager at mutual funds group Dreyfus, says: "It could very easily be a two-stage, 50-basis point rise." Analysts at Donaldson, Lufkin & Jenrette, brokerage firm, believe the next move could come soon. Investors should "be wary of a further move within the next few weeks to 3½ per cent".

Another Wall Street house, Salomon Brothers, expects even bigger rate increases by the Fed, arguing that "money market rates and short-term bond yields will be pushed higher in the next few months as robust economic growth data will justify additional tightening moves that could total 50-75 basis points by mid-year".

While the prospect of further tightening is bound to trigger a sell-off, the longer-term outlook, given continued low-inflation, is favourable for long-dated bonds.

Salomon believes that upward momentum in long-term Treasury yields will stall, because investors are likely to adopt the view that the Fed's vigilant stance against inflation is positive for the bond market. Longer-dated government securities are less likely to suffer from a concerted sell-off following further rate rises because bonds have been sold heavily in recent months in anticipation of such a move.

However, Mr John Lipsky, Salomon's chief economist, says it may be some time before the benefit of the Fed's actions begin to show through in lower bond yields. "This move helps set the stage for an ultimate return of long-term interest rates, at least in my opinion, to back below 6 per cent. But that's not likely to occur anytime soon. Quite the contrary, if we're right about the economic data, over the next few months the risks lie on the other side – of higher long-term interest rates."

Almost everyone agrees that, after several years of a steep yield curve, the gap between short and long yields will start to close. Mr Dennis Bushe, managing director of Prudential Investment Advisors, says "longer term, there will be a flattening of the yield curve" because markets will gain confidence from the Fed's pre-emptive strike.

Mr David Hale, chief economist at Kemper Securities in Chicago, is another who believes that last week's rate rise is positive for longer-dated government securities. "It protects the long-end from having a blow out on the upside. I think if the Fed hadn't tightened you would have seen long bond yields rising. I think you'd have seen the bond market vigilantes riding it."

The negative knock-on effect on the European bond markets could prove relatively short-lived. True, since the US economic cycle is ahead of Europe's, the US market offers a taste of things to come. But the fact remains that the US and Europe are at quite different points in the economic cycle, and the start of Fed tightening, when European governments are expected to ease further, means that it no longer makes sense for European bonds to track the US market.

"We are going to decouple," said Mr Kit Juckes, international economist at S. G. Warburg. He believes real interest rates in the US had fallen too low. For example, real short-term rates in the US are below 1 per cent compared with 2½ per cent in the UK.

The Fed move leaves room for further tightening of spreads between European bond markets and the US Treasury markets. In the current low yield environment, these spread-trades are likely to become an increasingly common feature of investment management strategy.

Patrick Harverson, Tracy Corrigan, Martin Dickson and Richard Waters

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Maturity	Coupon %	Price	Yield %	Launch spread bp	Book runner
US DOLLARS							
U-Ming Marine Transport(a)§	90	Feb.2001	1.50	100.00	-	-	Baring Brothers
Itochu Fuel Corp.(b)♦	150	Feb.1998	1.50	100.00	-	-	Nikko Europe
Utd.Engineers(Malaysia)(c)§	230	Mar.2004	2.00#	100.00	-	-	Morgan Stanley Intl.
ICICI(d)§	300	Apr.2000	2.50	100.00	-	-	JP Morgan Securities
Tem Fat Hing Fung(e)★§	50	Mar.2002	2.50	100.00	-	-	SG Warburg, Geneva
[illegible]							
ITALIAN LIRE							
BHF-Bank	150bn	Feb.2001	8.125	101.70	7.801	-	BCI
ECUS							
Republic of Portugal(s)	750	Feb.2004	6.00	98.325R	6.230	+28 (6%-04)	Dresd./M.Stan./Paribas
Crédit Local de France(x)	300	Dec.1999	5.25	99.55R	5.345	-	Lehman Brothers/SBC
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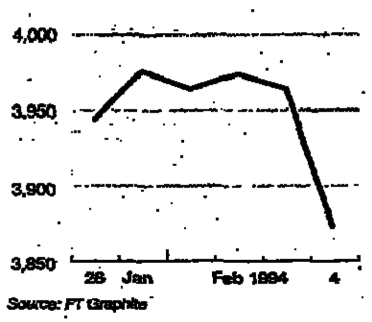
EQUITY MARKETS: This Week

NEW YORK — Frank McGurty

Traders hope the first cut is the deepest



Wall Street may discover this week that it is more pleasant to fret over the inevitable than to deal with its consequences.

After months of hand-wringing by market observers over the timing of a move to tighter money, the Federal Reserve finally acted on Friday. In announcing the move to tighter credit conditions, Mr Alan Greenspan, the Fed chairman, made good on his word. Earlier in the week he told a congressional committee that the central bank would have to adjust its policy to stamp out incipient inflationary pressures in the economy.

The timing was somewhat of a surprise, however, as was the extent of the damage to stocks. The Dow Jones Industrial Average limped into the weekend after its worst single-day battering since November 15 1991. The bellwether blue-chip index tumbled 96 points, or 2.4 per cent, to 3,871.42, led by the hasty retreat of interest-sensitive financial and utility issues.

The good news is that few analysts expect to see stocks fall as sharply this week. "The first cut is always the deepest," says Mr James Solloway, chief investment analyst at Argus Research in New York. With plenty of bargains on offer today, the Dow index may bounce back.

The bad news is that most expect a weak trend over the next month or two, as the euphoria that has gripped the market since the new year unwinds.

Wall Street has worried about a shift in policy because stocks have thrived over the past three years in the rarefied atmosphere of Fed accommodation. In that time, funds have flooded into equities as investors sought higher returns than other financial instruments could offer. Cheap money has also made stocks attractive because it has helped lift the earnings potential of American companies, which have taken advantage of low rates to reduce debt and buy new equipment.

The question is whether a move to tighter money will finally rein in the long-running bull market, or at least trigger a 5 per cent to 7 per cent correction, as many analysts have predicted after Friday's developments.

A conclusive answer is months away, but many analysts believe the key lies in how soon the Fed tightens again and by how much. "This is the end of the beginning," says Mr David Shulman, chief investment strategist at Salomon Brothers, "not the beginning of the end."

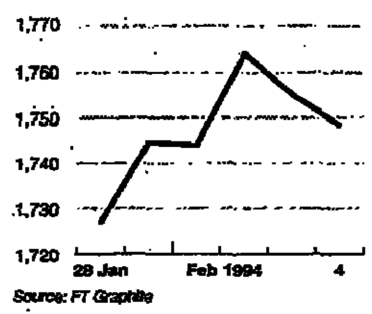
When the Fed acts again depends on economic data still in the pipeline. In the meantime, trading is expected in a narrow range. The 4,000 barrier appears a more formidable barrier than just a week ago.

"The market may go down a bit more in the next week or two, but then we'll sit tight for a while before waiting for these questions about inflation to be resolved," says Mr Bill Dodge, an investment strategist at Dean Witter Reynolds.

The picture may clear somewhat this Friday, when the Commerce Department releases the January producer price index.

LONDON — Terry Byland

Prices top out in a volatile environment



There were signs late last Friday that the UK equity market may at last have topped out as share prices weakened following the Federal Reserve move to lift short-term interest rates.

The market has become increasingly volatile, as trading activity and the value of customer and marketmaker business has hit record levels.

Last week saw all the main equity market indices – the FT-SE 100, the Mid 250, the All-Share and the Smaller Companies – race ahead to all-time highs and, more importantly, to all-time inflation-adjusted records. July 1987 was the last market peak – two months before it crashed 500 points in two days.

However, towards the end of this week, share prices tumbled, the market being hyped by a dealer-driven story that a wave of European interest rate cuts was imminent. This would have produced a burst of buying in equities as international institutions continued their search for value in a low interest rate environment.

The Bundesbank council's refusal to cut rates upset the equity market apple cart, producing a near 50-point swing in the FT-SE 100.

However, there is more to the market's short-term performance than purely rate cuts. Some see the carrot of lower rates as better for the market than an actual cut. "The longer the authorities leave it, the better," said one senior trader. "The minute they cut, this market will slide."

The equity market's rise this week was once again underpinned by the futures market. Friday saw a development in the equity market as the OMLX market introduced its futures and options contract on the Mid 250 index. The Mid 250 has consistently outperformed the senior FT-SE 100 index this year, rising a startling 9.4 per cent compared with the FT-SE 100's 1.5 per cent.

Much of this rise, traders argue, has been prompted by heavy demand for the Mid 250 stocks by the big integrated securities houses, which have been aggressively marketing various covered warrants and derivatives instruments to their institutional clients. The OMLX launch will be followed by the London International Financial Futures Exchange, whose Mid 250 futures and options contracts commence trading on February.

Salomon Brothers, the influential US securities house, and a rampant bull, rates the UK equity market as its most favoured in Europe, with a year-end FT-SE 100 target of 3,950. Salomon forecasts base-rate reductions to 4 per cent, in order to offset fiscal tightening, a strong recovery in earnings and further increases in institutional and private cash flow in 1994. It says the UK's public finances are likely to be the strongest in Europe by 1995-96.

The broker expects earnings growth of over 38 per cent for 1993, 16 per cent for 1994 and 12 per cent for 1995. The risks to the market, Salomon says, are posed by potential internal strife in the Conservative party.

INDICES AT A GLANCE

	Closing price	Percentage Change: Over week	On 12 months	Since Jan 1	12 month: High		Low		1994: High		Low	
FT-SE 100	3,475.4	+0.8	+21.3	+1.7	3,520.3	2/2/94	2,786.3	6/5/93	3,520.3	2/2/94	3,360.0	13/1/94
Dow Jones Ind.	3,871.42	-1.9	+13.3	+3.1	3,978.36	31/1/94	3,302.91	18/2/93	3,978.36	31/1/94	3,756.60	3/1/94
Nikkei	20,301.43	+8.2	+18.1	+16.5	21,148.11	13/9/93	16,078.71	29/11/93	19,307.43	21/1/94	17,369.74	4/1/94
Dax	2,138.25	+0.2	+33.5	-5.7	2,267.98	3/1/94	1,601.61	4/2/94	2,267.98	3/1/94	2,075.61	21/1/94
CAC 40	2,329.17	+0.7	+25.6	+2.7	2,355.93	2/2/94	1,835.72	17/5/93	2,355.93	2/2/94	2,234.78	17/1/94
Banca Com. Ital.	671.70	+4.6	+34.8	+8.4	672.85	3/2/94	475.01	31/3/93	672.85	3/2/94	588.85	10/1/94

FT Graphite

OTHER MARKETS

TOKYO

Trading is expected to remain light with many investors cautious ahead of the Hosokawa-Clinton meeting in Washington on Friday. Although the Nikkei index managed to remain above the psychologically important 20,000 level on Friday, in spite of delays in the announcement of the government's long-awaited economic stimulus package, some market participants fear the effects on share prices if the government scales down its tax cuts from the originally planned Y6,000bn.

Chinese New Year holidays on Wednesday, Thursday and Friday will restrict trading in Asian markets.

PARIS

Private investors have until Thursday to buy shares, or confirm existing orders, in Elf Aquitaine, the largest company to be privatised so far in the French government's programme to sell 21 publicly-owned groups.

Corporate announcements due this week include figures from UAP, the insurer and privatisation candidate, which Hoare Govett expects to post a recovery in net profit to FFr1.9bn.

The market expects a strong recovery at Matra Hachette while some analysts also expect improved results from Total on Wednesday, in contrast with the sharp drop recorded at Elf.

MILAN

Shares in Instituto Mobiliare Italiano, the financial services group which was heavily oversubscribed when it was privatised last week, begin trading on Wednesday. The stock was quoted at L12,600-L12,900 on the grey market last Friday, compared with the the issue price of L10,900.

STOCKHOLM

Full-year figures come from Ericsson on Thursday. UBS, which expects a 130 per cent rise in net profits, recalls that the group disappointed the market with its third-quarter results. However, the bank believes that some expectations are too optimistic. It says investors should remember the volatility of the shares as US investors sold after the last report. Stora, Europe's largest forest products group, reports finals tomorrow.

OSLO

Hafslund Nycomed, due to report 1993 results on Friday, is expected to post higher sales but little changed earnings. Full-year figures are due on Thursday from *Bergesen*, the bulk shipping group.

RISK AND REWARD

Swaps dealers upset by threat of legislation

A prominent US Congressman is proposing a new agency to oversee US derivatives dealing, a move that some swaps dealers fear would inhibit the fast-growing industry.

Mr James Leach, the top Republican on the House Banking Committee, has introduced legislation to set up a Federal Derivatives Commission which would establish standards for capital, accounting, disclosure and suitability for institutions dealing in derivatives.

The Commission would co-ordinate the fragmented derivatives oversight of six US agencies, including the Federal Reserve, the Commodity Futures Trading Commission, the Securities and Exchange Commission and the Comptroller of the Currency.

The bill has received little support in Washington, but it sets the stage for a battle between some members of Congress and the derivatives industry when the re-authorisation of the Commodity Futures Trading Commission begins later this year. Congress gave the CFTC partial oversight of over-the-counter derivatives in 1992, but promised to revisit the issue this year.

Mr Leach's bid for a co-ordinating agency echoes recommendations made in several comprehensive studies of the derivative industry during the past year. The last of these studies, by the General Accounting Office, the independent research arm of Congress, is expected later this month.

These studies were sparked by concerns that growing derivatives exposure among financial institutions was fuelling systemic risk, and that potential problems may not be spotted because some derivatives operations were slipping through the regulatory net.

The International Swaps and Derivatives Association, the swaps industry body, responded to the Leach proposal with a statement that "some provisions of the bill may inhibit desirable risk management activity; impose an inequitable scheme of regulation on derivatives dealers and end-users; and roll back some of the protections currently afforded market participants in the event of insolvency".

Nevertheless, the current regulatory structure, based on divisions between banking and securities operations, does appear increasingly archaic.

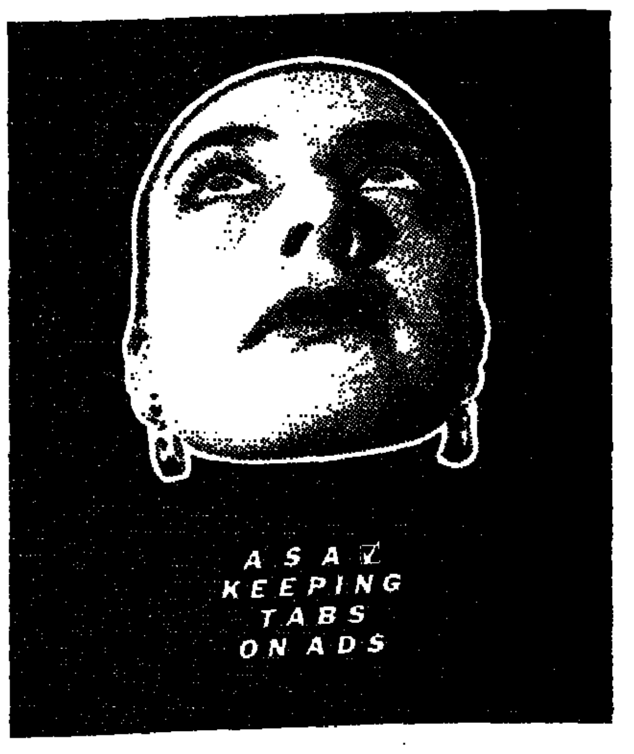
● Paribas, the French bank, has introduced an innovative equity-linked structure to the sterling bond market. On Friday, Paribas launched a £50m offering of five-year bonds for ABB International Finance, an arm of the international electrical engineering company. The bonds are convertible into a cash amount based on the performance of the FT-SE 100 index of UK stocks. Similar deals, linked to the CAC-40 index, have been launched in the French market.

The ABB issue is structured to resemble a conventional convertible bond which can be converted into the shares of a single company. But the investor is exposed to the FT-SE index, according to a predetermined formula, instead of an underlying stock. The premium is 20 per cent, and the bonds pay a coupon of 3 per cent and are priced at par.

The deal was placed mainly in continental Europe among insurance companies and other financial institutions. Some institutions, which are not allowed to use derivative products but can buy bonds with embedded derivatives, buy such bonds for asset allocation.

For ABB, the structure provides cost savings over a conventional financing. However, the disadvantage for the issuer is that the bonds can be exchanged at any time after the first year, so the exact term of the financing is uncertain.

Laurie Morse and Tracy Corrigan



WORLD STOCK MARKETS

EUROPE

AUSTRIA (Feb 4 / Sch)

BELGIUM/LUXEMBOURG (Feb 4 / Frs.)

DENMARK (Feb 4 / Kr)

FINLAND (Feb 4 / Mka)

FRANCE (Feb 4 / Frs.)

GERMANY (Feb 4 / Dm.)

ITALY (Feb 4 / Lira)

NETHERLANDS (Feb 4 / Fls.)

NORWAY (Feb 4 / Kroner)

SPAIN (Feb 4 / Pta)

SWEDEN (Feb 4 / Kronor)

SWITZERLAND (Feb 4 / Frs.)

PACIFIC

JAPAN (Feb 4 / Yen)

HONG KONG (Feb 4 / H.K.$)

MALAYSIA (Feb 4 / MYR)

SINGAPORE (Feb 4 / S$)

AUSTRALIA (Feb 4 / Aust$)

NORTH AMERICA

CANADA

TORONTO (Feb 4 / Can $) 4 pm close

MONTREAL (Feb 4 / Can $) 4 pm close

AFRICA

SOUTH AFRICA (Feb 4 / Rand)

Prices supplied by Telekurs

NOTES - Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. Highs/Lows are 1993-94, except Toronto & Montreal (daily). # Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all.

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■ TOKYO - MOST ACTIVE STOCKS: Friday, February 4, 1994

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Fujitsu	11.2m	1,060	+40	Nomura Sec	3.4m	2,270	-50
Nitsuko	5.9m	1,460	+110	Mitsubishi Oil	3.3m	962	+26
Mitsubishi Hvy	5.7m	709	+5	Itochu	3.2m	679	
Nissan Motor	5.7m	840	-15	Sumitomo Elec	3.2m	1,600	+20
Nippon Steel	5.5m	346		Oki Elec	3.1m	649	+19

INDICES

	Feb 4	Feb 3	Feb 2	1993/4 High		1993/4 Low	
Argentina							
General (29/12/77)	(u)	24041.2	23445.7	24041.20	3/2/94	12167.68	8/3/93
Australia							
All Ordinaries(1/1/80)	2332.8	2340.6	2312.1	2340.60	3/2/94	1495.00	13/1/93
All Mining(1/1/80)	1134.4	1136.1	1109.2	1136.10	3/2/94	594.78	13/1/93
Austria							
Credit Aktien(30/12/84)	457.07	457.09	460.66	469.66	2/2/94	308.28	14/1/93
Traded Index(2/1/91)	1206.07	1209.97	1220.51	1222.25	1/2/94	712.08	15/1/93
Belgium							
BEL20 (1/1/91)	1528.75	1520.39	1522.10	1529.44	31/1/94	1125.46	4/1/93
Brazil							
Bovespa (29/12/83)	(u)	79835.0	82306.0	82606.00	1/2/94	714.72	4/1/93
Canada							
Metals Mnls♦(1975)	3703.35	3795.05	3820.54	3824.93	1/2/94	2743.31	21/1/93
Composite♦ (1975)	4447.20	4560.30	4573.43	4591.30	1/2/94	3275.88	21/1/93
Portfolio§§ (4/1/83)	2100.19	2156.51	2169.80	2182.88	1/2/94	1720.87	21/1/93
Chile							
IPGA Gen (31/12/80)	(u)	4805.4	4819.3	4819.30	2/2/94	2812.59	10/5/93
Denmark							
CopenhagenSE(3/1/83)	410.22	414.24	415.79	415.79	2/2/94	281.90	4/1/93
Finland							
HEX General(28/12/90)	1972.0	1962.1	1939.7	1972.00	4/2/94	843.10	22/1/93
France							
SBF 250 (31/12/90)	1572.68	1568.53	1585.20	1586.20	2/2/94	1114.19	28/1/93
CAC 40(31/12/87)	2329.17	2321.99	2355.93	2355.93	2/2/94	1772.21	29/1/93
Germany							
FAZ Aktien(31/12/58)	819.58	833.65	835.89	855.67	4/1/94	598.92	14/1/93
Commerzbank(1/12/53)	2345.7	2388.5	2393.0	2459.00	4/1/94	1694.30	14/1/93
DAX (30/12/87)‡	2138.25	2151.72	2184.01	2267.98	3/1/94	1516.50	13/1/93
Greece							
Athens SE(31/12/80)	1114.91	1103.19	1097.17	1194.98	18/1/94	687.72	5/1/93
Hong Kong							
Hang Seng(31/7/64)	12157.57	11851.13	11785.83	12201.09	4/1/94	5437.80	4/1/93
India							
BSE Sens.(1979)	3917.5	3992.2	4036.6	4069.30	27/1/94	2100.67	23/4/93
Indonesia							
Jakarta Comp.(10/8/82)	601.83	594.36	592.19	612.89	5/1/94	273.31	5/1/93
Ireland							
ISEQ Overall(4/1/88)	2047.01	2084.27	2086.22	2062.16	20/1/94	1191.19	11/1/93
Italy							
Banca Comm Ital (1972)	671.70	672.85	668.30	672.85	3/2/94	446.33	6/1/93
MIB General (4/1/94)	1073.0	1075.0	1063.0	1076.00	3/2/94	944.00	10/1/94
Japan							
Nikkei 225 (16/5/49)	20301.43	20174.82	20250.03	21148.11	13/9/93	16078.71	29/11/93
Nikkei 300 (1/10/82)	297.68	297.85	300.17	306.84	10/11/93	249.64	29/11/93
Topix (4/1/68)	1614.60	1612.73	1627.88	1698.67	3/9/93	1250.06	25/1/93
2nd Section (4/1/68)	2158.75	2159.13	2165.92	2384.97	7/6/93	1851.72	26/1/93
Malaysia							
KLSE Comp.(4/4/86)	1147.32	1150.21	1148.04	1314.46	5/1/94	614.28	13/1/93
Mexico							
IPC (Nov 1978)	(u)	2822.51	2784.90	2822.51	3/2/94	1504.15	25/2/93
Netherland							
CBS TtlRtnGen(End 83)	452.3	452.6	453.1	454.90	31/1/94	295.70	4/1/93
CBS All Shr (End 83)	293.1	293.4	293.7	294.80	31/1/94	198.60	13/1/93
New Zealand							
Cap. 40 (1/7/86)	2413.24	2439.64	2418.68	2439.64	3/2/94	1495.37	21/1/93
Norway							
Oslo SE(Ind)(2/1/83)	1204.17	1197.81	1195.27	1204.17	4/2/94	669.93	27/1/93
Philippines							
Manila Comp (2/1/85)	2965.38	2922.99	2906.14	3308.37	4/1/94	1270.66	4/1/93
Portugal							
BTA (1977)	3142.4	3085.7	3047.8	3142.40	4/2/94	1608.20	14/1/93
Singapore							
SES All-S'pore(2/4/75)	612.38	612.70	610.84	641.61	4/1/94	394.10	13/1/93
South Africa							
JSE Gold (28/9/78)	2015.0♥	1995.0	2021.0	2331.00	4/1/94	775.00	5/1/93
JSE Indl. (28/9/78)	3822.0♥	5722.0	5679.0	5750.00	7/1/94	3822.00	4/2/94
South Korea							
KoreaCompEx(4/1/80)**	984.42	955.02	974.26	974.26	2/2/94	605.93	6/3/93
Spain							
Madrid SE (30/12/85)	356.47	354.79	356.47	358.31	31/1/94	215.60	4/1/93
Sweden							
AffarsverldnGen (1/2/37)	1594.0	1591.2	1602.8	1603.90	31/1/94	878.10	28/1/93
Switzerland							
Swiss Bk Ind (31/12/58)	1410.80	1405.01	1410.56	1423.34	31/1/94	904.80	11/1/93
SBC General (1/4/87)	1091.83	1086.61	1090.60	1093.29	31/1/94	678.78	11/1/93
Taiwan							
WeightedPr.(30/6/66)**	6256.33	6362.08	6259.21	6464.52	6/1/94	3098.43	9/1/93
Thailand							
Bangkok SET (30/4/75)	1443.61	1463.90	1453.44	1753.73	4/1/94	818.84	1/6/93
Turkey							
Istanbul Comp.(Jan 1986)	17894.8	18487.7	19463.4	20883.60	13/1/94	3905.53	1/1/93
WORLD							
MS Capital Int (1/1/70)$	636.7*	637.7	640.0	641.00	1/2/94	498.60	13/1/93
CROSS-BORDER							
Eurotrack 100(26/10/90)	1529.77	1527.17	1540.13	1540.19	31/1/94	1093.02	13/1/93
Euro Top-100 (26/6/90)	1301.34	1302.26	1311.01	1311.01	2/2/94	892.73	13/1/93
JCapelOrgas (31/12/88)	(u)	378.65	377.49	395.19	5/1/94	188.92	4/1/93
Barings Emerg.(7/1/92)	181.80	182.10	182.15	182.15	2/2/94	99.81	4/2/93

■ CAC-40 STOCK INDEX FUTURES (MATIF)

	Open	Sett Price	Change	High	Low	Est. vol.	Open Int.
Feb	2320.0	2339.0	+9.0	2352.0	2320.0	26,812	21,029
Mar	2336.5	2350.5	+9.0	2360.0	2334.0	1,423	44,427
Jun	2334.0	2348.0	+9.0	2334.0	2334.0	1	2,512

Open interest figures for previous day.

** Sat Jan 29: Taiwan Weighted Price (c) ; Korea Comp Ex 946.11. Base values of all indices are 100 except: Australia All Ordinary and Mining - 500; Austria Traded, BEL20, HEX Gen., MIB Gen., SBF250, CAC40, Euro Top-100, ISEQ Overall; Toronto Comp./Metals & Minerals and DAX - all 1,000; JSE Gold - 255.7; JSE 26 Industrials - 264.3; NYSE All Common - 50 and Standard and Poor's - 10. §§ Montreal. ♦ Toronto. (c) Closed. (u) Unavailable. ‡ IBIS/DAX after-hours index: Feb 4 - 2143.80 +6.82.

US INDICES

Dow Jones	Feb 4	Feb 3	Feb 2	1993/4 High	1993/4 Low	Since compilation High	Since compilation Low
Industrials	3871.42	3967.66	3975.54	3978.36 (31/1/94)	3241.95 (20/1/93)	3978.36 (31/1/94)	41.22 (2/7/32)
Home Bonds	(u)	105.21	105.32	108.77 [illegible]	103.49 [illegible]	108.77 [illegible]	54.99 (1/10/81)
Transport	1808.32	1832.58	1862.29	1862.29 [illegible]	1463.84 [illegible]	1862.29 [illegible]	12.32 [illegible]
Utilities	230.21	224.23	225.15	256.46 [illegible]	217.11 [illegible]	256.46 [illegible]	10.50 [illegible]

DJ Ind. Day's High [illegible] Low [illegible] (Theoretical)¶ Day's high [illegible] Low [illegible] (Actual)¶

Standard and Poors	Feb 4	Feb 3	Feb 2	1993/4 High	1993/4 Low	Since compilation High	Since compilation Low
Composite ‡	469.81	480.71	482.00	482.00 [illegible]	429.05 [illegible]	482.00 [illegible]	4.40 [illegible]
Industrials	547.63	560.00	560.58	560.58 [illegible]	485.48 [illegible]	560.58 [illegible]	3.62 [illegible]
Financial	44.45	45.76	46.25	48.40 [illegible]	39.86 [illegible]	48.40 [illegible]	8.64 [illegible]
NYSE Comp.	261.21	267.16	267.71	267.71 [illegible]	236.21 [illegible]	267.71 [illegible]	4.46 [illegible]
Amex Mkt Val	478.29	487.18	482.80	487.80 [illegible]	395.84 [illegible]	487.80 [illegible]	29.31 [illegible]
NASDAQ Cmp	777.28	797.76	799.57	800.47 [illegible]	645.87 [illegible]	800.47 [illegible]	54.87 [illegible]

■ RATIOS

	Jan 28	Jan 21	Jan 14	Year ago
Dow Jones Ind. Div. Yield	2.57	2.59	2.62	3.13
	Feb 2	Jan 26	Jan 19	Year ago
S & P Ind. Div. yield	2.26	2.35	2.34	2.46
S & P Ind. P/E ratio	26.51	27.99	26.13	27.44

■ STANDARD AND POORS 500 INDEX FUTURES $500 times index

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	480.30	468.95	-11.25	481.40	468.50	56,078	184,295
Jun	480.70	470.00	-11.25	482.40	469.40	1,139	5,970
Sep	479.55	471.60	-11.10	483.80	471.60	21	916

Open interest figures are for previous day.

■ NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Close price	Change on day
Stone Cont	9,427,400	15¼	-⅛
Telefonos	8,247,400	73	-2¼
Gen Motors	4,788,800	61½	-1⅜
RJR Nabisco	4,115,200	7½	-⅛
Chicorp	3,800,600	40½	-2
Pepsico	3,794,100	38⅛	-1⅛
Blockbuster	3,670,000	25⅝	+1⅛
Philip Morris	3,551,400	59⅝	-⅛
Wal-Mart	3,501,400	27⅛	-⅛
Unisys Corp	3,392,300	14⅛	-½

■ TRADING ACTIVITY

● Volume (million)	Feb 4	Feb 3	Feb 2
New York SE	375.863	316.004	328.766
Amex	23.605	20.541	23.949
NASDAQ	(u)	331.823	334.955
NYSE			
Issues Traded	2,744	2,746	2,733
Rises	295	919	1,268
Falls	2,042	1,182	843
Unchanged	407	645	622
New Highs	97	137	161
New Lows	50	19	14

† Correction. * Calculated at 15.00 GMT. ● Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ♦ The DJ Indl. index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ♥ Subject to official recalculation.

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AUTHORISED UNIT TRUSTS

[illegible]

Guide to pricing of Authorised Unit Trusts

Compiled with the assistance of Lautro §§

INITIAL CHARGE: Charge made on sale of units. Used to defray marketing and administrative costs, including commission paid to intermediaries. This charge is included in the price of units.

OFFER PRICE: Also called issue price. The price at which units are bought by investors.

BID PRICE: Also called redemption price. The price at which units are sold back by investors.

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TSB Unit Trusts (1200)F
Charlton Pl, Andover, Hants. SP10 1RE 0264 346794

	Init Chrge	Canc Price	Bid Price	Offer Price	Yield Gr's	City-Line
TSB American	6	232.80	232.80	247.68	-	4147
Do Accum	6	255.42	255.42	272.78	-	4148
TSB Brit Growth	6	103.22	103.22	109.81	1.52	4159
Do Accum	6	122.23	122.23	130.03	1.52	4140
TSB European	6	114.80	114.80	122.13	0.08	4141
Do Accum	6	122.01	122.01	129.80	0.08	4142
TSB Extra Income	6	223.86	227.12	241.61	3.32	4143
Do Accum	6	[illegible]	371.34	[illegible]	3.32	[illegible]
TSB Smaller Cos	6	81.19	83.38	88.66	0.83	4145
Do Accum	6	90.28	92.87	98.89	0.83	4146
TSB General	6	314.87	319.01	339.37	1.88	4147
Do Accum	6	634.32	642.88	683.69	1.88	4148
TSB Premier Income	5	56.01	57.03	59.41	5.33	4148
Do Accum	5	121.54	123.74	128.90	5.33	4149
TSB Income	6	387.43	393.01	418.09	2.97	4151
Do Accum	6	820.51	832.32	885.44	2.97	4152
TSB Pacific	6	488.75	488.75	519.54	-	4143
Do Accum	6	490.44	490.44	521.74	-	4144
TSB International	6	592.17	592.17	629.96	0.02	4145
Do Accum	6	777.18	777.18	826.78	0.02	4146
TSB Nat Resources	6	188.54	188.79	200.84	-	4147
Do Accum	6	204.72	207.19	220.42	-	4148
TSB Scot Opps	6	121.55	124.00	131.92	0.80	4147
Do Accum	6	153.88	156.38	166.47	0.80	4148
Environmental Inv	6	69.23	69.23	73.64	1.10	4886
Do Accum	6	75.05	75.05	79.84	1.10	4889
TSB Selector	6	70.66	71.77	76.35	1.80	4276
Do Accum	6	78.52	79.76	84.85	1.80	4081
TSB High Income	6	72.55	73.52	78.21	3.68	4858
Do Accum	6	86.45	89.48	95.17	3.66	4858
TSB Intl Income	6	63.65	64.37	68.48	4.53	4880
Do Accum	6	75.41	75.90	80.75	4.83	4881
TSB Selector Income	6	68.54	69.27	73.69	4.46	4882
Do Accum	6	77.91	78.72	83.74	4.46	4883

T.U. Fund Managers Limited (1200)H
NLA Tower, Addiscombe Road, Croydon 081-686 4355

	Init Chrge	Canc Price	Bid Price	Offer Price	Yield Gr's	City-Line
T.U. British	5	362.3	367.7	387.0	2.38	4556
T.U. European		54.02	54.02	56.43	2.00	5840

Templeton Unit Trust Managers Ltd (1200)F
Atholl Crescent, Edinburgh EH3 8HA 031-228 3932

INSURANCES

AXA Equity & Law Life Assce
Amersham Road, High Wycombe 0494 463463

	Bid Price	Offer Price	Yield Gross	City-Line
UK Equities Ser 5	1009.3	1062.4	-	42223
Higher Income Ser 5	1088.7	1146.0	-	42224
Property Ser 5	524.7	552.5	-	42225
Fixed Interest Ser 5	424.5	446.9	-	42226
Index Lnkd Secs Ser 5	188.4	198.3	-	42227
Gtd Deposit Ser 5	289.0	304.2	-	42228
Nth America Ser 5	447.5	484.7	-	42229
Far East Ser 5	801.8	631.8	-	42230
Europe Ser 5	375.8	395.3	-	42231
International Ser 5	582.8	613.4	-	42232
Balanced Ser 5	721.3	759.2	-	42233
Reserve Ser 5	149.3	157.1	-	47038
Opportunity Ser 5	168.9	178.8	-	47040
Distribution Ser 5	110.2	116.0	-	47180
Pens Equity Ser 3 (z)	1436.4	1512.0	-	42234
Pens Higher Inc S 3 (z)	349.0	367.3	-	42235
Pens Fixed Int S 3 (z)	576.6	606.8	-	42236
Pens Index-Linked Sec S 3 (z)	248.4	259.1	-	42237
Pens Property S 3 (z)	488.5	514.2	-	42238
Pens N America S 3 (z)	194.4	204.5	-	42239
Pens Far East S 3 (z)	348.1	366.4	-	42240
Pens Europe S 3 (z)	211.4	222.5	-	42241
Pens Overseas S 3 (z)	875.3	921.3	-	42242
Pens Balanced S 3 (z)	843.0	887.3	-	42243
Pens Cash S 3 (z)	420.3	442.2	-	42244
Pens DAF Series 3 (z)	235.2	247.5	-	42245
Pens DAF Series 1 (z)	466.5	491.0	-	42246
Pens Opportunity S 3 (z)	182.7	192.3	-	47042
Pens Reserve S 3 (z)	173.3	182.4	-	47041

Abbey Life Assurance Co Ltd
80 Holdenhurst Road, Bournemouth 0202 292373

Britannia Life Assurance
50 Bothwell Street, Glasgow G2 6HR 041-248 2000

Crown Financial Management Ltd - Contd.

Hearts of Oak Insurance Group - Contd.

Henderson Administration(z)
3 Finsbury Ave, London, EC2 M2PA 071-638 5757

Lincoln National
1 Olympic Way, Wembley HA9 0NB 081-902 8876

NM Life Assurance Ltd

Providence Capital Life Assc. Co Ltd - Contd.

Eagle Star Life Assurance Co Ltd
Bath Road, Cheltenham GL53 7LQ 0242 221 311

OTHER UK UNIT TRUSTS

FT MANAGED FUNDS SERVICE

• FT Cityline Unit Trust Prices: dial 0891 430010 and key in a 5 digit code listed below. Calls are charged at 38p/minute cheap rate and 48p/minute at all other times. International access available by subscription only. For more details call the FT Cityline Help Desk on 071-873 4378.

Royal Liver Assurance

Skandia Life Assurance Co Ltd - Contd.

Templeton Life Assurance Limited

Tunbridge Wells Equitable

Labrow International Group

PanEuroLife societe anonyme

Professional Investment Consultants

J. D. Ward Financial Services Ltd

Rothschild Asset Management - Contd.

GT Asset Management - Contd.

CMI Fund Managers - Contd.

John Govett Management (IOM) Ltd

Leopold Joseph Fund Mngrs (IoM) Ltd

Mercury Fund Managers IoM Ltd

Sun Life Management (IoM) Ltd

Unibank Scandinavian Fund Ltd

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

GUERNSEY (REGULATED)(**)

CANADA (SIB RECOGNISED)

GUERNSEY (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

IRELAND (REGULATED)(**)

OFFSHORE INSURANCES

IRELAND (SIB RECOGNISED)

MANAGEMENT SERVICES

JERSEY (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices: dial 0891 430010 and key in a 5 digit code listed below. Calls are charged at 36p/minute cheap rate and 48p/minute at all other times. International access available by subscription only. For more details call the FT Cityline Help Desk on 071-873 4378.

EBC Fund Managers (Jersey) Ltd

EBC Traded Currency Fund Ltd*

	Bid Price	Offer Price	Yield Gross	City-Line
Income	$14.41	14.852	1.26	44893
Capital	$22.70	23.401	-	44894

*Offer price includes 3% prelim. charge

International Income Fund*

	Bid Price	Offer Price	Yield Gross	City-Line
Ecrbd Long Term–US$	$33.05	34.5493	4.89	44892
Ecrbd Long Term–DM	[illegible]	[illegible]	1.52	43160

* Offer Price includes 3½% initial Charge

Fleming Group

Robert Fleming Management (Jersey) Ltd

	Bid Price	Offer Price	Yield Gross	City-Line
Czech & Slovak NAV Jan 31	$12.16		-	49181
Deutschland NAV Jan 31	DM17.06		-	45696

Foreign & Colonial Mngmt (Jersey) Ltd

Hypo Foreign & Colonial Reserve Asset Fd Ltd

	Bid Price	Offer Price	Yield Gross	City-Line
US$ Cash	$11.104		-	45006
Sterling Cash	£13.384		-	45007
US$ Bonds	$17.122		-	45008
Multicurrency Bonds	$22.878		-	45009
Sterling Bonds	£17.684		-	45010
D Mark Bonds	DM12.940		-	45011
European Bonds	Ecu14.805		-	45013
UK Equities	£14.478		-	45014
US Equities	$18.153		-	45015
Japanese Equities	Y667.8		-	45016
Contl Euro Equities	DM21.654		-	45017
UK Negative Equities	£10.225		-	48010
US Negative Eq			-	48011
Japanese Negative Eq	Y600.8		-	48012
Cont Eur Negative Eqs			-	48073
UK Geared Equities	£11.411		-	48014
US Geared Equities	$11.631		-	48019
Japanese Geared Eqs	Y1043.9		-	48015
Contl Euro Geared Eqs	DM16.868		-	48016
Gold	$11.308		-	48017
Protected Capital Plus A	£11.434		-	48018
Protected Capital Plus B	£11.375		-	49162

Greece Fund Ltd

	Bid Price	Offer Price	Yield Gross	City-Line
NAV Feb 3	$24.68		-	49690

John Govett Management (Jersey) Ltd

	Bid Price	Offer Price	Yield Gross	City-Line
Spira Banking Fd NAV Feb 4	$25.1161		-	47863
Paragon Fd NAV Dec 31	$10.45		-	47955
Paragon Redemption	$10.12		-	47108
Hungarian Inv Co Dec 31	$65.49		-	40573
Dollar Global Managed Hedge	$11.2181	11.56	-	49164
Dlr Geared Curr NAV Feb 4	$13.82		-	45839
Dlr Geared Bd Feb 4	$7.59		-	46440
Govett India Fund	$12.53	12.90	-	
Inv Infl-Protected Inv Pfolio	£10.7962	11.4153	-	51334
Sterling Balanced Hedge	£9.9149	10.58	-	-
Swiss Franc Balanced Hedge	SFr10.2867	10.97	-	-
Govett Med Fire Feb 4	$13.73	15.02	-	44516

Comgest SA

56 rue de Londres, 75008 Paris 010 331 4470 7510

	Init Chrge	Canc Price	Bid Price	Offer Price	Yield Gr's	City-Line
Comgest Europe SICAV	SFr	-	1299.01		-	45458

Commercial Union Luxembourg SA (u)

41 Ave de la Gare L-1611 010 352 402820251

Commercial Union Privilege Portfolio

Equity Funds

	Init Chrge	Canc Price	Bid Price	Offer Price	Yield Gr's	City-Line
Monthly Income	£	-	1.2381	1.3171	7.05	45683
Private Client Mgd	£	-	1.4644	1.5579	-	[illegible]
Far Eastern Gwth	$	-	3.1612	3.3630	-	[illegible]
American Gwth	$	-	2.4658	2.6232	-	[illegible]
European Gwth	Ecu	-	2.6190	2.6798	-	[illegible]
Japanese Gwth	Y	-	149	169	-	[illegible]
UK Growth	£	-	1.3705	1.4580	-	[illegible]
Italian Gwth	L	-	1930	2053	-	[illegible]
Spanish Gwth	Pta	-	224	238	-	[illegible]
Dutch Gwth	Dfl	-	6.9540	7.3980	-	[illegible]
Belgian Gwth	BFr	-	117	124	-	[illegible]
French Gwth	FFr	-	11.3555	12.0803	-	[illegible]
German Growth	DM	-	2.6329	2.8010	-	[illegible]
Green	£	-	1.7353	1.8461	-	[illegible]
Gold Shares	$	-	1.3530	1.4393	-	[illegible]
Emerging Countries	$	-	2.4366	2.5921	-	[illegible]

Reserve Funds

	Init Chrge	Canc Price	Bid Price	Offer Price	Yield Gr's	City-Line
Dollar Reserve Acc	$	-	10.7497	10.8580	1.42	[illegible]
Dollar Reserve Dis	$	-	9.9167	10.0169	1.42	[illegible]
Yen Reserve Acc	Y	-	1051	1062	1.88	[illegible]
Yen Reserve Dis	Y	-	991	1001	1.88	[illegible]
D'mark Reserve Acc	DM	-	12.0727	12.1946	5.16	[illegible]
D'mark Reserve Dis	DM	-	9.9429	10.0433	5.16	[illegible]
Stlg Reserve Acc	£	-	1.3916	1.4057	4.52	[illegible]
Stlg Reserve Dis	£	-	0.9983	1.0038	4.52	[illegible]

Bond Funds

	Init Chrge	Canc Price	Bid Price	Offer Price	Yield Gr's	City-Line
D'mark Bond Acc	DM	-	56.8256	57.4036	6.18	[illegible]
Peseta Bond Acc	Pta	-	320	323	8.27	[illegible]
Peseta Bond Dis	Pta	-	218	220	8.27	[illegible]
Sterling Bond Acc	£	-	176.1643	177.9435	8.16	[illegible]
US $ Bond Acc	$	-	152.3579	153.8917	3.86	[illegible]
Worldwide Bond Acc	SFr	-	78.6540	79.4521	6.37	[illegible]

Cressvale Group (u)

11 Rue Aldringen, L-1118 Luxembourg 071-357 8400

	Bid Price	City-Line
Managed Convertible (z)	$2.36	[illegible]
Equity Wrnt (Japan) (z)	$1.88	[illegible]
Hedge Fund	$21.30	[illegible]
Hedge Fund US$ II	$19.58	[illegible]
Hedge (£)	£88.34	[illegible]

DB Investment Management SA

2 Boulevard Konrad Adenauer, Lux 010 352 421011

	Init Chrge	Bid Price	Offer Price	Yield Gr's	City-Line
Eurorenta	DM	89.27	91.97	-	[illegible]
Dollarrenta	$	57.73	59.46	-	[illegible]
DM Reserve	DM	160.27	161.88	-	[illegible]

Den norske Bank

[illegible]

LUXEMBOURG (SIB RECOGNISED)

[illegible]

LUXEMBOURG (REGULATED)(**)

[illegible]

SWITZERLAND (SIB RECOGNISED)

[illegible]

OTHER OFFSHORE FUNDS

[illegible]

Wells Fargo U.S. IT Fund

	Bid Price	Offer Price	Yield Gross	City-Line
Wells Fargo A Shs (z)	$12.95		-	47689
Wells Fargo B Shs (z)	$13.04		-	47184

Worldwide Limited

	Bid Price	Offer Price	Yield Gross	City-Line
NAV Dec 31	$94.06		-	[illegible]

Xiphias International Investment Fd Ltd

	Bid Price	Offer Price	Yield Gross	City-Line
Xiphias Intl US$ Acc	$1.5009		-	[illegible]
Xiphias Intl ECU Acc	Ecu1.8106		-	[illegible]
Xiphias Intl ECU Dis	Ecu1.3919		-	[illegible]

Yamaichi Capital Management (Guernsey) Ltd

	Bid Price	Offer Price	Yield Gross	City-Line
Thai Inv Fund	$30.37		-	[illegible]

MANAGED FUNDS NOTES

Prices are in pence unless otherwise indicated and those designated $ with no prefix refer to U.S. dollars. Yields % allow for all buying expenses. Prices of certain older insurance linked plans subject to capital gains tax on sales. h Distribution free of UK taxes. p Periodic premium insurance plans. s Single premium insurance. u Designated as a UCITS (Undertakings for Collective Investment in Transferable Securities). x Offered price includes all expenses except agent's commission. z Previous day's price. §§ Guernsey gross. ‡ Suspended. ♦ Yield before Jersey tax. † Ex-subdivision. ‖ Only available to charitable bodies. ♦ Yield column shows annualised rates of NAV increase. [illegible]
(**) Funds not SIB recognised. The regulatory authorities for these funds are Guernsey: Financial Services Commission; Ireland: Central Bank of Ireland; Isle of Man: Financial Supervision Commission; Jersey: Financial Services Department; Luxembourg: Institut Monetaire Luxembourgeois.

CURRENCIES AND MONEY

POUND SPOT FORWARD AGAINST THE POUND

Feb 4		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	Day's Mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	Bank of Eng. Index
Europe													
Austria	(Sch)	18.2216	-0.0076	118 - 314	18.2895	18.1168	18.2254	-0.3	18.2347	-0.3	-	-	112.7
Belgium	(BFr)	53.3817	-0.2593	140 - 094	53.6463	53.5405	53.4167	-1.2	53.5417	-1.3	53.8717	-1.0	113.6
Denmark	(DKr)	10.0540	-0.0212	491 - 588	10.1336	10.0534	10.0645	-1.3	10.078	-1.0	10.095	-0.4	114.2
Finland	(FM)	8.2455	-0.0139	353 - 557	8.2927	8.2260	-	-	-	-	-	-	82.1
France	(FFr)	8.7897	-0.0141	845 - 949	8.8310	8.7735	8.7967	-1.0	8.8105	-0.9	8.8277	-0.4	107.5
Germany	(DM)	2.5897	-0.004	882 - 911	2.6122	2.5841	2.591	-0.6	2.5931	-0.5	2.5926	-0.1	121.6
Greece	(Dr)	372.578	-0.874	229 - 926	375.073	371.828	-	-	-	-	-	-	-
Ireland	(I£)	1.0394	+0.0007	379 - 408	1.0434	1.0381	1.0399	-0.5	1.041	-0.6	1.0447	-0.5	103.8
Italy	(L)	2509.21	-13.42	725 - 117	2527.60	2510.39	2515.06	-2.8	2528.56	-3.1	2574.46	-2.6	76.6
Luxembourg	(LFr)	53.3817	-0.2593	140 - 094	53.6463	53.5405	53.4167	-1.2	53.5417	-1.3	53.8717	-1.0	113.6
Netherlands	(Fl)	2.9001	-0.0063	983 - 018	2.9149	2.8967	2.9001	0.0	2.9003	0.0	2.8908	0.3	117.8
Norway	(NKr)	11.1203	-0.0269	151 - 255	11.1844	11.0975	11.1168	0.4	11.1108	0.3	11.1185	0.0	94.4
Portugal	(Es)	260.469	-0.782	232 - 705	261.749	258.520	261.744	-5.9	263.894	-5.3	-	-	-
Spain	(Pta)	209.710	-0.924	453 - 967	211.408	209.922	210.295	-3.3	211.496	-3.4	215.46	-2.7	85.1
Sweden	(SKr)	11.7050	-0.0781	939 - 160	11.8015	11.6853	11.7285	-2.4	11.7595	-1.9	11.877	-1.5	78.0
Switzerland	(SFr)	2.1564	-0.0097	549 - 579	2.1818	2.1568	2.1545	1.1	2.1498	1.2	2.1264	1.4	118.7
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	81.7
Ecu	-	1.3317	-0.0036	309 - 324	1.3439	1.3316	1.3329	-1.1	1.3354	-1.1	1.3391	-0.6	-
SDR†	-	0.924758	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.4889	-0.0061	883 - 895	1.4954	1.4829	-	-	-	-	-	-	-
Brazil	(Cr)	737.602	+10.611	351 - 853	741.000	721.000	-	-	-	-	-	-	-
Canada	(C$)	1.9824	-0.0051	813 - 834	1.9905	1.9751	1.9787	1.6	1.9744	1.6	1.9502	1.2	91.1
Mexico (New Peso)		4.6321	-0.0192	290 - 351	4.6513	4.6152	-	-	-	-	-	-	-
USA	($)	1.4918	-0.0062	913 - 923	1.4985	1.4859	1.4892	2.1	1.4844	2.0	1.4716	1.4	66.8
Pacific/Middle East/Africa													
Australia	(A$)	2.0863	-0.0081	849 - 877	2.0970	2.0778	2.0848	0.9	2.0825	0.7	2.0805	0.3	-
Hong Kong	(HK$)	11.5227	-0.0471	181 - 273	11.5759	11.4772	11.501	2.3	11.4667	1.9	11.3866	1.4	-
India	(Rs)	46.7959	-0.1926	746 - 172	47.0000	46.6130	-	-	-	-	-	-	-
Japan	(Y)	161.249	-0.803	135 - 362	161.970	160.890	160.844	3.0	159.984	3.1	156.334	3.0	181.7
Malaysia	(M$)	4.1271	-0.0201	249 - 292	4.1456	4.1152	-	-	-	-	-	-	-
New Zealand	(NZ$)	2.6110	-0.0109	085 - 135	2.6216	2.6023	2.6139	-1.3	2.6182	-1.1	2.6208	-0.6	-
Philippines	(Peso)	41.1738	-0.246	616 - 859	41.4860	40.8616	-	-	-	-	-	-	-
Saudi Arabia	(SR)	5.5947	-0.0232	924 - 969	5.6197	5.5729	-	-	-	-	-	-	-
Singapore	(S$)	2.3691	-0.0075	677 - 705	2.3804	2.3575	-	-	-	-	-	-	-
S Africa (Com.)	(R)	5.1009	-0.0185	980 - 037	5.1219	5.0783	-	-	-	-	-	-	-
S Africa (Fin.)	(R)	6.5602	-0.0722	505 - 699	6.5993	6.5429	-	-	-	-	-	-	-
South Korea	(Won)	1204.78	-4.93	422 - 533	1210.04	1200.01	-	-	-	-	-	-	-
Taiwan	(T$)	39.3612	-0.1785	405 - 818	39.5300	39.230	-	-	-	-	-	-	-
Thailand	(Bt)	37.9216	-0.1426	939 - 492	38.0770	37.7860	-	-	-	-	-	-	-

†SDR rate for Feb 3. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1985 = 100 Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Feb 4		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	J.P. Morgan index
Europe													
Austria	(Sch)	12.2145	+0.0455	120 - 170	12.2580	12.1755	12.2395	-2.5	12.2795	-2.1	12.3795	-1.4	102.5
Belgium	(BFr)	35.7700	-0.025	500 - 900	35.9500	35.7000	35.87	-3.4	36.07	-3.4	36.61	-2.3	103.0
Denmark	(DKr)	6.7395	+0.0137	385 - 405	6.7090	6.7290	6.758	-3.3	6.79	-3.0	6.8595	-1.8	103.2
Finland	(FM)	5.5272	+0.0130	222 - 322	5.5621	5.5112	5.5337	-1.4	5.5452	-1.3	5.5857	-1.1	77.2
France	(FFr)	5.8920	+0.015	905 - 935	5.9160	5.8780	5.907	-3.1	5.9357	-3.0	5.999	-1.8	104.1
Germany	(D)	1.7360	+0.0046	356 - 363	1.7440	1.7315	1.74	-2.7	1.747	-2.5	1.7619	-1.5	103.5
Greece	(Dr)	249.750	+0.45	600 - 900	250.750	249.100	253.1	-16.1	260.25	-16.8	290.75	-16.4	71.3
Ireland	(I£)	1.4354	-0.0068	338 - 369	1.4381	1.4297	1.4322	2.7	1.4257	2.7	1.4081	1.9	-
Italy	(L)	1682.00	-2	125 - 275	1694.00	1676.98	1688.85	-4.9	1703.5	-5.1	1749.5	-4.0	76.6
Luxembourg	(LFr)	35.7700	-0.025	500 - 900	35.9500	35.7000	35.87	-3.4	36.07	-3.4	36.61	-2.3	103.0
Netherlands	(Fl)	1.9440	+0.0038	435 - 445	1.9541	1.9407	1.9473	-2.1	1.9536	-2.0	1.9645	-1.1	103.1
Norway	(NKr)	7.4543	+0.0110	533 - 553	7.4921	7.4386	7.4648	-1.7	7.486	-1.7	7.5443	-1.2	94.5
Portugal	(Es)	174.600	+0.2	500 - 700	175.350	174.330	175.59	-6.8	177.6	-6.9	185.1	-6.0	94.1
Spain	(Pta)	140.575	-0.035	450 - 700	141.400	140.300	141.205	-5.4	142.46	-5.4	146.36	-4.1	80.4
Sweden	(SKr)	7.8402	-0.0197	414 - 510	7.9439	7.8288	7.8737	-4.2	7.9252	-4.0	8.0787	-3.0	83.1
Switzerland	(SFr)	1.4455	-0.0005	450 - 460	1.4565	1.4435	1.4467	-1.0	1.4482	-0.8	1.4465	-0.1	105.1
UK	(£)	1.4918	-0.0062	913 - 923	1.4985	1.4859	1.4892	2.1	1.4844	2.0	1.4716	1.4	90.9
Ecu	-	1.1203	-0.0017	200 - 205	1.1224	1.1122	1.1173	3.2	1.1117	3.1	1.0992	1.9	-
SDR	-	1.38390	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9981	+0.0001	980 - 981	0.9981	0.9980	-	-	-	-	-	-	-
Brazil	(Cr)	494.438	+9.13	435 - 440	494.450	494.435	-	-	-	-	-	-	-
Canada	(C$)	1.3289	+0.0021	280 - 291	1.3293	1.3270	1.3294	-0.5	1.3302	-0.4	1.3314	-0.2	87.4
Mexico (New Peso)		3.1050	-	040 - 060	3.1060	3.1040	3.1066	-0.6	3.1094	-0.6	3.12	-0.5	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	101.6
Pacific/Middle East/Africa													
Australia	(A$)	1.3985	+0.0004	980 - 990	1.4015	1.3978	1.3995	-0.9	1.4024	-1.1	1.4099	-0.8	88.9
Hong Kong	(HK$)	7.7240	+0.0005	235 - 245	7.7275	7.7235	7.7255	-0.2	7.728	-0.2	7.739	-0.2	-
India	(Rs)	31.3088	+0.0013	050 - 725	31.3725	31.3050	31.4338	-2.5	31.5688	-2.6	-	-	-
Japan	(Y)	108.090	+0.045	050 - 130	108.600	107.950	108.005	0.9	107.78	1.1	106.24	1.7	143.0
Malaysia	(M$)	2.7605	-0.002	600 - 670	2.7695	2.7660	2.76	2.8	2.759	1.1	2.7815	-0.5	-
New Zealand	(NZ$)	1.7503	-	492 - 513	1.7532	1.7492	1.7519	-1.1	1.7564	-1.4	1.7706	-1.2	-
Philippines	(Peso)	27.6000	-0.05	000 - 000	27.9000	27.4000	-	-	-	-	-	-	-
Saudi Arabia	(SR)	3.7503	-	500 - 505	3.7505	3.7500	3.7527	-0.8	3.7571	-0.7	3.7758	-0.7	-
Singapore	(S$)	1.5881	+0.0016	877 - 885	1.5900	1.5868	1.587	0.9	1.5848	0.8	1.5971	-0.6	-
S Africa (Com.)	(R)	3.4193	+0.0018	185 - 200	3.4225	3.4130	3.4383	-6.0	3.4653	-5.4	3.5728	-4.5	-
S Africa (Fin.)	(R)	4.3975	-0.03	925 - 025	4.4350	4.3900	4.4285	-8.5	4.4875	-8.2	-	-	-
South Korea	(Won)	807.600	+0.05	500 - 700	807.700	807.500	810.6	-4.5	814.1	-3.2	832.6	-3.1	-
Taiwan	(T$)	26.3850	-0.01	800 - 900	26.3900	26.3800	26.4875	-4.7	26.835	-3.8	-	-	-
Thailand	(Bt)	25.4200	+0.01	100 - 300	25.4300	25.4100	25.49	-3.3	25.63	-3.3	25.77	-1.4	-

†SDR rate for Feb 3. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan indices shown for Feb 3. Base average 1990=100

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Feb.4		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	18.83	16.47	4.852	1.947	4702	5.435	20.84	488.2	393.0	21.93	4.040	1.874	3.714	2.796	302.1	2.496
Denmark	(DKr)	53.09	10	8.745	2.576	1.034	2497	2.886	11.06	259.2	208.7	11.64	2.145	0.995	1.972	1.485	160.4	1.325
France	(FFr)	60.71	11.43	10	2.946	1.182	2855	3.300	12.65	296.4	238.6	13.31	2.453	1.138	2.255	1.698	183.4	1.516
Germany	(DM)	20.61	3.882	3.395	1	0.401	969.1	1.120	4.295	100.6	81.00	4.519	0.833	0.386	0.766	0.576	62.26	0.514
Ireland	(I£)	51.36	9.673	8.459	2.492	1	2415	2.791	10.70	250.7	201.8	11.26	2.075	0.962	1.908	1.436	155.1	1.282
Italy	(L)	2.127	0.401	0.350	0.103	0.041	100.	0.116	0.443	10.38	8.358	0.466	0.086	0.040	0.079	0.059	6.425	0.053
Netherlands	(Fl)	18.40	3.466	3.031	0.893	0.358	865.2	1	3.834	89.83	72.31	4.034	0.743	0.345	0.683	0.514	55.59	0.459
Norway	(NKr)	47.99	9.038	7.904	2.328	0.934	2256	2.608	10	234.3	188.6	10.52	1.938	0.899	1.782	1.342	145.0	1.198
Portugal	(Es)	20.48	3.858	3.374	0.994	0.399	963.1	1.113	4.269	100.	80.50	4.491	0.828	0.384	0.761	0.573	61.88	0.511
Spain	(Pta)	25.45	4.793	4.191	1.235	0.495	1196	1.383	5.303	124.2	100.	5.579	1.028	0.477	0.945	0.711	76.87	0.635
Sweden	(SKr)	45.61	8.590	7.512	2.213	0.888	2144	2.479	9.504	222.8	179.2	10	1.843	0.855	1.694	1.276	137.8	1.138
Switzerland	(SFr)	24.75	4.661	4.077	1.201	0.482	1164	1.345	5.158	120.8	97.26	5.427	1	0.464	0.919	0.692	74.77	0.618
UK	(£)	53.36	10.05	8.789	2.589	1.039	2509	2.900	11.12	260.5	209.7	11.70	2.156	1	1.982	1.492	161.2	1.332
Canada	(C$)	26.92	5.071	4.434	1.306	0.524	1266	1.463	5.610	131.4	105.8	5.903	1.088	0.505	1	0.753	81.33	0.672
US	($)	35.76	6.736	5.891	1.735	0.696	1682	1.944	7.453	174.6	140.5	7.842	1.445	0.670	1.328	1	108.0	0.893
Japan	(Y)	331.0	62.34	54.52	16.06	6.445	15565	17.99	68.98	1616	1301	72.58	13.37	6.203	12.30	9.256	1000.	8.263
Ecu		40.06	7.545	6.598	1.944	0.780	1884	2.177	8.348	195.6	157.4	8.784	1.619	0.751	1.488	1.120	121.0	1

Yen per 1,000: Danish Kroner, French Franc, Norwegian Kroner and Swedish Kronor per 10; Belgian Franc, Escudo, Lira and Peseta per 100.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	0.5726	0.5666	-0.0061	0.5770	0.5650	62,276	138,140
Jun	0.5697	0.5637	-0.0060	0.5725	0.5620	436	8,958
Sep	-	0.5617	-0.0059	0.5695	0.5610	4	319

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	0.6865	0.6792	-0.0093	0.6920	0.6770	36,119	44,623
Jun	0.6865	0.6784	-0.0093	0.6905	0.6770	100	711
Sep	-	0.6788	-0.0093	-	-	5	44

■ JAPANESE YEN FUTURES (IMM) Yen 12.5 per Yen 100

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	0.9255	0.9162	-0.0096	0.9280	0.9132	19,569	78,592
Jun	0.9275	0.9195	-0.0095	0.9310	0.9162	305	6,891
Sep	-	0.9237	-0.0094	-	0.9240	27	689

■ STERLING FUTURES (IMM) £62,500 per £

[illegible]

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

[illegible]

UK INTEREST RATES

LONDON MONEY RATES

Feb 4	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	4¾ - 2	5$\frac{3}{16}$ - 5	5$\frac{7}{16}$ - 5$\frac{5}{16}$	5$\frac{7}{16}$ - 5$\frac{5}{16}$	5⅜ - 5¼	5⅜ - 5¼
Sterling CDs	-	-	5⅜ - 5$\frac{5}{16}$	5$\frac{11}{32}$ - 5$\frac{9}{32}$	5¼ - 5⅛	5¼ - 5⅛
Treasury Bills	-	-	5$\frac{3}{16}$ - 5⅛	5 - 4$\frac{15}{16}$	-	-
Bank Bills	-	-	5$\frac{3}{16}$ - 5$\frac{3}{32}$	5$\frac{3}{16}$ - 5$\frac{1}{16}$	5$\frac{1}{32}$ - 4$\frac{31}{32}$	-
Local authority deps.	5$\frac{1}{16}$ - 4$\frac{15}{16}$	5$\frac{3}{16}$ - 5$\frac{1}{16}$	5$\frac{7}{16}$ - 5$\frac{5}{16}$	5$\frac{7}{16}$ - 5$\frac{5}{16}$	5⅜ - 5¼	5⅜ - 5¼
Discount market deps.	4¾ - 3	5$\frac{3}{16}$ - 5$\frac{1}{16}$	-	-	-	-

UK clearing bank base lending rate 5½ per cent from November 23, 1993

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	1¾	4¼	4	3½	3½

Certs of Tax dep. under £100,000 is 2¼pc. Deposits withdrawn for cash 1pc.
Ave. tender rate of discount 4.9320pc. ECGD fixed rate Stlg. Export Finance. Make up day January 31, 1994. Agreed rate for period Feb 26, 1994 to Mar 25, 1994, Schemes II & III 6.70pc. Reference rate for period Jan 1, 1994 to Jan 31, 1994, Schemes IV & V 5.434pc. Finance House Base Rate 5½pc from Feb 1, 1994

BANK OF ENGLAND TREASURY BILL TENDER

[illegible]

FT GUIDE to WORLD CURRENCIES
The FT Guide to World Currencies table can be found on page 25 in today's edition.

■ Pound in New York

[illegible]

FIXED INTEREST RATES

MONEY RATES

February 4	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Belgium	7¼	6⅝	6¼	6⅛	6⅛	7.40	5.25	-
week ago	7¼	6⅝	6⅜	6$\frac{3}{16}$	6⅛	7.40	5.25	-
France	6⅝	6½	6¼	6⅛	5¾	6.20	-	7.75
week ago	6⅞	6½	6⅜	6¼	5¾	6.20	-	7.75
Germany	5.98	6.05	5.80	5.60	5.26	6.75	5.75	6.00
week ago	6.50	6.05	5.85	5.65	5.35	6.75	5.75	6.00
Ireland	6	6⅜	5⅜	5¾	5⅝	-	-	6.75
week ago	6	5⅞	5¾	5⅝	5½	-	-	6.75
Italy	8⅝	8⅞	8¼	8¼	8	-	8.00	8.92
week ago	9½	8⅞	8½	8⅜	8	-	8.00	8.92
Netherlands	5.53	5.48	5.30	5.09	4.90	-	5.25	-
week ago	5.56	5.48	5.26	5.03	4.87	-	5.25	-
Switzerland	4¼	4⅜	4¼	3⅞	3⅝	6.625	4.00	-
week ago	4½	4⅜	4¼	3⅞	3⅝	6.625	4.00	-
US	3$\frac{1}{16}$	3⅛	3⅜	3½	3⅝	-	3.00	-
week ago	3	3⅛	3$\frac{3}{16}$	3⅜	3⅝	-	3.00	-
Japan	2¼	2¼	2¼	2⅛	2⅛	-	1.75	-
week ago	2⅜	2¼	2⅛	2	1⅞	-	1.75	-
■ $ LIBOR FT London								
Interbank Fixing	-	3¼	3⅜	3⅝	3⅞	-	-	-
week ago	-	3¼	3¼	3⅝	3$\frac{11}{16}$	-	-	-
US Dollar CDs	-	3.08	3.16	3.30	3.62	-	-	-
week ago	-	3.08	3.03	3.14	3.43	-	-	-
SDR Linked Ds	-	3⅝	3⅝	3⅝	3¾	-	-	-
week ago	-	3⅝	3⅝	3⅝	3¾	-	-	-

$ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo, Barclays and National Westminster.
Mid rates are shown for the domestic Money Rates, US $ CDs and SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

Feb 4	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	7 - 6⅞	6$\frac{15}{16}$ - 6$\frac{11}{16}$	6$\frac{13}{16}$ - 6$\frac{11}{16}$	6$\frac{11}{16}$ - 6$\frac{9}{16}$	6$\frac{9}{16}$ - 6$\frac{7}{16}$	6¼ - 6⅛
Danish Krone	6 - 5⅝	6⅝ - 6¼	6½ - 6⅜	6⅜ - 6⅛	6 - 5¾	5⅝ - 5⅜
D-Mark	6⅛ - 6	6⅛ - 6	6⅛ - 6	5⅞ - 5¾	5$\frac{11}{16}$ - 5$\frac{9}{16}$	5⅜ - 5¼
Dutch Guilder	5⅝ - 5½	5⅝ - 5½	5½ - 5⅜	5$\frac{5}{16}$ - 5$\frac{3}{16}$	5⅛ - 5	4$\frac{15}{16}$ - 4$\frac{13}{16}$
French Franc	6½ - 6⅜	6½ - 6⅜	6½ - 6⅜	6⅜ - 6¼	6⅛ - 6	5¾ - 5⅝
Portuguese Esc.	10⅞ - 10¼	10½ - 10¼	10⅝ - 10⅜	10$\frac{7}{16}$ - 10$\frac{3}{16}$	10⅜ - 10⅛	10⅛ - 9⅞
Spanish Peseta	9⅛ - 8⅞	9⅛ - 8⅞	9$\frac{1}{16}$ - 8⅞	8$\frac{13}{16}$ - 8$\frac{9}{16}$	8⅝ - 8⅜	8⅛ - 7$\frac{13}{16}$

[illegible]

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

[illegible]

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

[illegible]

All Open interest figs. are for previous day

STOCK EXCHANGES

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Ltd., Goldman, Sachs & Co. and NatWest Securities Ltd. in conjunction with the Institute of Actuaries and the Faculty of Actuaries

[illegible]

STOCK INDICES

[illegible]

BANK RETURN

[illegible]

LONDON RECENT ISSUES: EQUITIES

[illegible]

FIXED INTEREST STOCKS

[illegible]

RIGHTS OFFERS

[illegible]

BASE LENDING RATES

[illegible]

MONEY MARKET FUNDS

Money Market Trust Funds

[illegible]

Money Market Bank Accounts

[illegible]

NOTICE OF EARLY REDEMPTION

Halifax Building Society

£ 150,000,000

Floating Rate Loan Notes 1996 (Series B)

Notice is hereby given that, pursuant to Condition 5(b) of its £150,000,000 Floating Rate Loan Notes 1996 (Series B) (the «Notes»), Halifax Building Society will redeem all of the Notes at their principal amount on March 30, 1994.

The Notes may be surrendered for redemption at the specified office of any of the Paying Agents, which are as follows.

[illegible]

Luxembourg, February 07, 1994

Kredietbank Luxembourg

LONDON SHARE SERVICE

BANKS

	Notes	Price	W'k% ch'nge	Div net	Div cov.	Dividends paid	Last xd	City line
ABN Amro Fl		£24¼	0.4	Q58%	1.9	Sep May	1.9	1597
ANZ A$		289	3.6	Q20c	0.7	Jan Jul	9.12	1698
Abbey National	†□	496	—	11.85	2.3	May Oct	16.8	6411
Allied Irish IE	♣†u□	289	-2.0	Q44%	2.1	Oct May	16.8	1394
Anglo Irish IE	M♣□	68xa	—	Q17.5%	1.7	Jan Jul	29.11	1365
Asahi Y		682	-.4	Q14%	1.3	Jun Dec	12'92	3040
Banco Bil Viz Pta		£16⅞	3.9	Q27.2%	2.7	JyOcJaAp	13.7	—
Banco Sant Pta		£32⅝	—	Q94.7%	2.0	ApJyOcJa	30.10	—
Bank Leumi (UK)		375	—	17.0	—	Apr Sep	2.8	1749
Bk Ireland IE	♣xc□	297	-2.6	Q13¼%	1.5	Jul Dec	15.11	1360
Bank Scotland	♣†□	228½	-4.8	4.67	1.6	Dec Jul	18.10	1742
9¼pc Pf		140¼	-.4	9¼%	—	May Nov	18.10	1482
9¾pc Pf		147¼	-.3	9¾%	—	May Nov	18.10	—
Barclays	♣N□	616	-1.9	12.5	—	Oct May	16.8	1754
Dai Ichi Kan Y		£12⅞	4.5	Q18%	3.2	Jun Dec	27.9	3221
Deutsche DM		£316⅝	0.4	Q80%	—	May	24.5	2345
Espirito Santo		£26⅞	5.8	Q120c	5.2	Jun	4.6	5167
First Nat Fin	N□	88xd	-2.2	1.5	ϕ	Mar	17.1	2571
6.3pc Cv Pf		68	—	6.3%	—	Jul Jan	4.1	2570
7pc Cv Pf		167	0.3	7.0	—	Jul Jan	4.1	—
Fuji Bank Y		1384	7.4	Q17%	2.9	Dec Jun	4.7	1684
HSBC HK	†□	1117	14.4	20.0	2.0	Nov Jun	20.9	2786
HSBC (75p Shs)	†□	1099	14.5	20.0	2.0	Nov Jun	20.9	2776
Lloyds	†□	625	-2.3	18.1	1.9	Oct May	2.8	3171
Mitsubishi Y		£14⅞	1.4	Q17%	2.3	Jun Dec	12'92	5298
Mits Tst & Bk Y		883¼	8.9	Q16%	12.4	Jun Dec	12'92	4775
Mitsui Tst & Bk Y		725½	10.2	Q17%	5.5	Jun Dec	12'92	5388
Nat Aust A$		613	2.7	Q50c	1.7	Jul Jan	9.6	3458
NatWest	†□	580	-4.0	17.8	1.0	Oct May	16.8	3463
Ottomans FFr		£32⅛	-1.1	Q160%	2.3	May	12.5	1621
Ryl Bk Scotland	♣N□	519xd	7.2	11.0	1.9	Feb Jul	13.12	3874
Sakura Y		89⅞	4.0	Q17%	3.0	Dec Jun	12'92	3931
Sanwa Y		£13⅛	-.8	Q17%	2.7	Jun Dec	12'92	5108
Standard Chartd	†□	1431	7.0	20.5	0.1	Jun Oct	16.8	4094
7 3/8pc Prf		106	-.7	7.37	—	Apr	—	1719
Sumitomo Y		£13⅛	3.7	Q17%	8.7	Jun Dec	12'92	3079

BREWERIES

BUILDING & CONSTRUCTION

BUILDING MATS. & MERCHANTS

BUILDING MATS. & MERCHANTS - Cont.

CHEMICALS

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ELECTRONIC & ELECTRICAL EQPT - Cont.

ENGINEERING

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

FOOD MANUFACTURERS

GAS DISTRIBUTION

HEALTH CARE

HOUSEHOLD GOODS

INSURANCE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

LONDON SHARE SERVICE

INVESTMENT TRUSTS - Cont.

LEISURE & HOTELS - Cont.

OIL, INTEGRATED - Cont.

PROPERTY - Cont.

SPIRITS, WINES & CIDERS

TRANSPORT - Cont.

WATER

LIFE ASSURANCE

OTHER FINANCIAL

SUPPORT SERVICES

AMERICANS

MEDIA

OTHER SERVICES & BUSINESSES

CANADIANS

TELECOMMUNICATIONS

TEXTILES & APPAREL

INVESTMENT COMPANIES

RETAILERS, FOOD

PHARMACEUTICALS

MERCHANT BANKS

SOUTH AFRICANS

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Dividends paid	Last xd	City line
Anglo Am Ind		£18¾	—	Q358c	1.7	Oct Apr	22.3	–
Barlow		£4½	8.7	Q173c	1.7	Jan Jul	13.12	1780
Gold Fields SA R		£14¾xd	4.4	Q200c	1.5	Mar Sep	31.1	2717
NK Props	s	65	—	Q44.7c	0.3	Mar Oct	19.10	–
SASOL	♥	317	9.7	Q78c	–	Oct	23.9	3919
SA Brews		£14	10.1	Q138c	2.2	Dec Jun	13.12	4113
Tiger Oats		723	3.3	Q82c	2.9	Jan Feb	29.11	5222
Tongaat-Hulett	†	520xd	3.6	Q75c	2.4	Feb Aug	4.1	5221

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service delivered by Extel Financial, a member of the Financial Times Group.

Company classifications are based on those used for the FT-SE Actuaries Share Indices.

Closing mid-prices are shown. Prices and net dividends are in pence unless otherwise indicated.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Dividend covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsettable ACT. Market Capitalisations are published on Tuesdays-Saturdays except for Investment Trusts and British Funds.

- □ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ) and non-UK stocks through the SEAQ International system.
- † *Interim since increased or resumed*
- ‡ *Interim since reduced, passed or deferred*
- ♦ Figures or report awaited
- ♥ *Not officially UK listed; dealings permitted under rule 535(4)(a)*
- ♣ Free annual/interim report available, see details below.
- ✤ USM; *not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.*
- †† Not officially UK listed; dealings permitted under Rule 535(2)
- # Price at time of suspension
- ¶ Indicated dividend *after pending scrip and/or rights issue; cover relates to previous dividend or forecast.*
- ♦ *Merger bid or reorganisation in progress*
- § Forecast *dividend; cover based on earnings updated by latest interim statement.*
- ♠ Unregulated collective investment scheme.

a Annualised dividend. b Figures based on prospectus or other official estimates. c Cents. f Flat yield. g Assumed dividend. h Assumed dividend after scrip issue. m Interim higher than previous total. n Rights issue pending. q Earnings based on preliminary figures. s Dividend excludes a special payment. t Indicated dividend: cover relates to previous dividend. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. v Not subject to ACT. z Dividend includes a special payment: Cover does not apply to special payment. F Dividend based on prospectus or other official estimates for 1994-95. G Assumed dividend after pending scrip and/or rights issue. H Dividend based on prospectus or other official estimates for 1993. K Dividend based on prospectus or other official estimates for 1994. L Estimated annualised dividend, cover based on latest annual earnings. M Dividend based on prospectus or other official estimates for 1993-94. N Figures based on IMR "Headline Earnings". P Figures based on prospectus or other official estimates for 1994. Q Gross. R Forecast annualised dividend, cover based on prospectus or other official estimates. T Figures assumed. W Pro forma figures. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xi ex capital distribution

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1235 a year for each security shown, subject to the Editor's discretion

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The following changes have been made to the FT Share Information Service: Additions: Litho Supplies (Distributors), Kingstream Res, Perseverance Corp. and Rackwood Min. (Extractive Inds.) Finsbury Underwriting (Insurance) and Southend Prop. 8pc Ln. 2020 (Prop.). Deletions: Whitbread Invs. (Inv. Tsts.), Southend Prop. 6¼pc Pf. (Prop.), Invergordon Dist. (Spirits, Wine & Cider) and Norex (Trans.)

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4 pm close February 4

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

1993/94 High	Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
16⅝	11½	AAR	0.48	3.0	25	823	16⅛	15¾	15¾	-⅜
29⅞	12¾	A L Labs A	0.18	1.1	37	543	16⅛	16	16	-⅛
67¼	54⅝	AMP	1.68	2.8	21	2918	62	60⅝	60⅞	-1⅛
72¾	55½	AMR			34	6010	u72¾	69⅝	69⅞	-1¾
5	1¾	ARX			18	533	4¾	4½	4½	-¼
58⅛	29⅞	ASA	2.00	4.0	33	1302	52¼	50⅝	50⅝	-⅞
30¼	22⅝	Abbot L	0.68	2.4	17	8904	30⅛	28¾	28¾	-1¼
13	8¼	Abitibi Pr	0.50	4.0	7	217	u13	12⅜	12⅜	-¼
15⅝	8¼	Acpincain			23	z100	12⅞	12¾	12¾	-⅜
36	25½	ACE Ltd	0.40	1.4	5	385	28½	27¾	27¾	-⅝
12⅝	10⅜	ACM Gvt In x	1.09	8.8		301	12⅜	12¼	12⅜	+⅛
10⅛	9⅛	ACM GvOpp x	0.80	8.1		120	10	9⅞	9⅞	
10⅝	8¾	ACM Gvt Sp x	0.96	9.3		429	10⅜	10¼	10⅜	+⅛
12¾	10½	ACM Gvt Se x	1.09	9.3		377	11⅞	11¾	11¾	-⅛
12¾	9⅝	ACM Man x	1.08	9.5		435	11⅝	11⅜	11⅜	-⅛
9⅜	8⅝	ACM Mosap x	0.72	8.0		265	9⅛	9	9	
12⅜	7¾	AcmeClv	0.44	4.6	11	93	10¼	9½	9½	-¾
11⅞	6⅜	Acme Elect			38	172	8½	8⅛	8⅜	
27⅝	18⅜	Acordia	0.44	1.9	13	18	23½	23¼	23½	+¼
9¼	6⅝	Actava	0.36	4.5	16	338	8½	8	8	-½
18	10⅜	Acuson			53	747	12¼	11¾	11¾	-⅜
21¾	17⅞	Adams Expr	0.39	2.2	0	173	18⅜	18	18⅛	-¼
68¼	45½	Ad Micro	3.00	6.0		130	51¼	50⅜	50⅜	-⅝
32¾	16¾	AdvMic	3.00	14.6	8	7854	20⅞	20¼	20½	-⅜
8⅞	5½	Advest Grp	0.16	2.4	10	178	6⅞	6¾	6¾	-⅛
24¾	14¼	Advo Inc	0.08	0.4	124	125	19	18⅝	18⅝	-⅜
58½	41⅛	Aegon ADR	1.23	2.3	11	67	54⅞	53½	53½	-1⅜
68¼	43⅜	AetnaL	2.76	4.5	26	1145	61⅞	61⅛	61⅜	-⅝
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Continued on next page

4 pm close February 4

NYSE COMPOSITE PRICES

Continued from previous page

[illegible]

NASDAQ NATIONAL MARKET

4 pm close February 4

[illegible]

Price data supplied by Telekurs

[illegible]

AMEX COMPOSITE PRICES

4 pm close February 4

[illegible]

FT GUIDE TO THE WEEK

7 MONDAY

Clinton presents his budget

The Clinton administration is due to send its 1995 budget to Congress. President Bill Clinton (left), intent on reducing the federal deficit below $180bn in the coming fiscal year, has said that nine of his 14 cabinet-level agencies will have to get by on less. The greatest interest lies in which programmes get cut and which spared.

The European Parliament holds a plenary session in Strasbourg (to Feb 11). MEPs are expected to debate the much-delayed Schengen agreement on open borders, progress on the European Union enlargement negotiations, and the Herman report on a possible European constitution.

EU foreign ministers meet in Brussels. Greece chairs the first EU foreign ministers' meeting of its six-month presidency (to Feb 8). Items include former Yugoslavia; efforts to improve trade relations with Russia, Ukraine and the Baltic states; new rules on the use of trade weapons; and relations with troubled Algeria.

CFA franc: France's president François Mitterrand and prime minister Edouard Balladur are to meet the leaders of the 13 west and central African countries forced to devalue their common CFA franc by 50 per cent in January. It was the first change in parity for the communauté financière africaine franc since 1948. Discussions take place in in Yamoussoukro, Ivory Coast, after the funeral of the West African country's late president, Felix Houphouet-Boigny.

Thorp in court: Greenpeace, the environment pressure group, and Lancashire County Council make their final attempt to challenge the UK government's decision to grant a licence to the Thorp nuclear reprocessing plant at Sellafield, Cumbria, north-west England. The verdict of the judicial review in the High Court in London will be final. Thorp's critics are worried about radioactive emissions. The government announced its decision to give the go-ahead to the £2.8bn plant before Christmas. The licence came into effect on January 17.

Maxwell musical injunction: UK attorney-general, Sir Nicholas Lyell, is to apply for an injunction to stop the curtain rising on Maxwell: The Musical, a West End show chronicling the life and times of the late Robert Maxwell. Fears that the show might prejudice the criminal trial of the late publisher's sons, Kevin and Ian, have prompted the action.

Holidays: Taiwan (markets closed).

8 TUESDAY

US health reform plan

The US Congressional Budget Office is due to deliver its verdict on the financial soundness of the Clinton administration's proposed reforms of the health care system.

The House Ways and Means Committee also holds its first hearing on the plan and will discuss the budget office cost analysis.

US-Japanese trade: The American Chamber of Commerce in Japan is to send a delegation to Washington to call for the opening of Japanese markets ahead of Friday's summit between Japanese prime minister Morihiro Hosokawa and US president Bill Clinton.

UK inflation: The Bank of England's quarterly inflation report will be examined for indications of the authorities' attitude towards base rate cuts. The inflation picture has improved since the last report in November, so the tone is expected to be upbeat. However, international interest rate developments have reduced the likelihood of a UK rate cut.

EU enlargement: European Union foreign ministers continue their meeting in Brussels. The main topic on the agenda will be the state of the enlargement negotiations with Norway, Sweden, Finland and Austria. Officials are trying to meet the March 1 deadline for completing the talks.

Works councils: The European Commission is due to approve a plan which dilutes earlier proposals for mandatory elected works councils in about 1,500 pan-European companies.

Employers have objected to any mention of minimum requirements for consultation. Trade union organisations, however, are unhappy at what they see as a U-turn by the Commission.

Azerbaijan's president, Gaidar Aliyev, visits Turkey. The trip will demonstrate a warming in relations after disagreement over the proposed Azeri pipeline project and last year's ousting of pro-Turkish former president Abulfaz Elchibey.

Armenia's president, Levon Ter Petrossian, makes the first official visit to the UK by a president of the Republic of Armenia. President Ter Petrossian will meet the Queen, prime minister John Major and foreign secretary Douglas Hurd (to Feb 10). The aim of the visit is to strengthen political and economic ties between the two countries.

Saleroom: A doll, 64 cm high, is expected to sell at Sotheby's in London for between £150,000 and £200,000. The doll is unique, as Kämmer and Reinhardt, its German manufacturers, apparently made just this one mould in 1909. The previous auction record for a 20th century doll is £90,200.

Holidays: Taiwan (markets closed).

9 WEDNESDAY

Japan's economic forecast

The Japanese government is due to decide its economic forecast for the fiscal year 1994. By then, Prime Minister Morihiro Hosokawa may have been able to present his package of economic stimulus measures, after running into strong opposition from his coalition partners last week.

The Ministry of Finance is expected to announce the draft 1994 national budget by Thursday.

Scott inquiry: Sir Robin Butler, Cabinet Secretary and head of the UK Home Civil Service gives evidence to Scott inquiry into arms exports to Iraq. The judge will take evidence today and for the rest of the week from Sir Robin, who as cabinet secretary, is responsible for the conduct of civil servants.

He is expected to be pressed for his views on ministerial accountability and the responsibility of officials to carry out orders which may go against government guidelines.

UK Sunday shopping: The shops bill, which liberalises trading laws in England and Wales, may be sabotaged by an alliance of Labour and Conservative MPs. Ministers fear that die-hard Tory supporters of the Keep Sunday Special campaign will back a Labour amendment guaranteeing double time to shop workers. The government fears other groups would seek similar statutory protection.

City of London: Winning People, a report commissioned by city institutions and the City and Inner London North Training and Enterprise Council, is due to be published. It concludes that unless there is a change in management practices, the City risks losing its position as Europe's premier financial centre.

Desperately seeking Oscar:

Hollywood opens for Oscar business with the nominations for the 66th Academy Awards. Spielberg's *Schindler's List* is firm Best Film favourite, having won top honours at the run-up award sprees. If Spielberg himself misses out on Best Director – which would be Hollywood keeping to its anti-wonderboy custom – Jane Campion (*The Piano*) may change history by becoming a woman winner.

Other bookie's favourites: *The Piano*'s Holly Hunter for Best Actress and any of an army of Britons for Best Actor. Among them, David Thewlis (*Naked*) and double-threat performers Daniel Day-Lewis (*The Age Of Innocence, In The Name Of The Father*) and Anthony Hopkins (*The Remains Of The Day, Shadowlands*).

Holidays: South Korea, Taiwan (Chinese New Year's Eve).

10 THURSDAY

Hosokawa starts his US trip

Japanese prime minister Morihiro Hosokawa leaves for Washington to meet US president Bill Clinton (to Feb 12). Their session in the White House on Friday will be the climax of an intense week in US-Japan relations, centring on trade issues.

The US expects Japan to make big concessions, agreeing to set numerical targets for the penetration of US goods and services into the Japanese market. Japan has shown little sign of budging.

US economy: The assumptions and projections underlying the Clinton administration's budget pronouncements on Monday are laid bare in the report of the president's Council of Economic Advisers.

Elf privatisation: Deadline for buying shares in the privatisation of the French oil group Elf Aquitaine. The price of FFr385 ($65) per share was set last week. Elf is the largest company to be sold so far in the programme to divest the state of 21 publicly owned concerns.

Bosnia talks: Peace talks between the three warring parties are due to resume in Geneva under United Nations-European Union mediation. The three sides appear to expect no halt to hostilities, so the meeting, if it takes place, is likely to focus more on confidence building-measures than the future borders of Bosnia's partition.

Brittan in Turkey:

Sir Leon Brittan (left), the European Union commissioner for external economic affairs, arrives in Turkey for two days of talks. The discussions will cover Turkish-EU relations and progress towards a customs union, which is due for completion in 1995.

Tomorrow's Company, the interim report of an inquiry by Britain's The Royal Society for the encouragement of Arts, Manufactures & Commerce, is published.

Carnival begins in German states bordering the Rhine. Many people in the area will work a half day before starting the festivities, which last until Tuesday 15. Many business and the federal government in Bonn will be out of action for the period.

Berlin film festival: The 44th annual celebration of cinematic art begins (to Feb 21). Italian actress Sophia Loren will be attending to receive a Golden Bear in recognition of her life's work.

Holidays: China, Hong Kong, Malaysia, Singapore, South Korea, Taiwan (Chinese New Year's Day: the Year of the Dog).

Thursday is Chinese New Year, the beginning of the Year of the Dog

11 FRIDAY

Mandela visits his prison

Nelson Mandela, African National Congress leader, who is on the campaign trail, chooses the fourth anniversary of his release from detention to visit Robben Island prison, where he spent most of his 27 years in jail.

Italian corruption: A trial in Milan is expected to hear evidence from the accused, Sergio Cusani, financial consultant to the Ferruzzi/Montedison group. Since November, Cusani has declined to go to the witness stand. He is believed to hold many secrets relating to the payment of L150bn ($88m) by Ferruzzi/Montedison to exit from Enimont, the chemical joint venture with ENI, the state oil concern.

Strike in Portugal: Public sector unions have called their second 24-hour strike in less than three weeks to protest at the government's 1994 pay offer of 2.5 per cent, against forecast inflation of 6 per cent. Public transport, hospitals, schools and other services will be hit.

Holidays: Japan's National Founding Day (markets closed), China, Hong Kong, Malaysia, Singapore, South Korea, Taiwan (Chinese New Year).

12-13 WEEKEND

Europe's steelmakers meet

Eurofer, the steelmakers' lobby group, is due to meet on Saturday to discuss strategy ahead of Monday's discussions on capacity cuts with the European Commission in Brussels. Private-sector producers have complained that they are being asked to sacrifice more than state-owned producers.

South African elections: Saturday is the deadline for parties to register for the country's first all-race elections on April 27. Last week it was still uncertain whether Zulu chief Mangosuthu Buthelezi's Inkatha Freedom party would agree to take part.

Channel tunnel walk: A 31-mile sponsored walk through the Channel tunnel in aid of children's organisations is due to take place, from Calais to Folkestone.

Winter Olympics: The 17th games open on Saturday in Lillehammer, Norway (to Feb 27).

Carnival begins in Rio de Janeiro, Brazil on Saturday (to Feb 16).

Compiled by Patrick Stiles.
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ECONOMIC DIARY

Other economic news

Monday: G10 central bank governors hold their regular monthly meeting in Basle. They will discuss the aftermath of the Federal Reserve's tightening of US monetary policy.

Tuesday: European Union central bankers remain in Basle, meeting as the council for the European Monetary Institute. They are expected to agree the appointment of Mr Robert Raymond as the EMI's director-general.

German statistics are likely to show sharp rises in unemployment, both in the west and the east. Later in the week, retail sales data – forecast to show a fall for December – will add to gloomy sentiment on the German economy.

Wednesday: The second round of banking sector wage talks begins in Germany.

Thursday: The Bank of France's monetary policy council meets today, amid speculation by some analysts that another rate cut is imminent.

Friday: Icy weather and the Los Angeles earthquake are likely to have played havoc with the US January retail sales figures, published today. Analysts are forecasting a modest rise. Japanese markets are closed.

Statistics to be released this week

Day Released	Country	Economic Statistic	Median Forecast	Previous Actual
Mon	US	Dec consumer credit	$8.5bn	$6.9bn
Feb 7	Japan	Dec current account – IMF	$12.4bn	$8.2bn
	Japan	Dec trade balance – IMF	–	$9.1bn
	Japan	Dec foreign bond investment	–	$10.1bn
	France	3rd qtr industrial production***	0%	0.1%
	UK	Dec consumer credit	£290m	£290m
	Aus'lia	4th qtr retail trade seas adj	2%	-0.5%
Tue	US	4th qtr productivity – prelim	–	4.3%
Feb 8	US	Dec wholesale trade	–	1%
	US	Johnson Redbook w/e Feb 5	–	–
	Germany	Jan unemployment, West, seas adj	30,000	5,000
	Germany	Dec emplyment, West, seas adj	-30,000	-79,000
	Germany	Jan vacancies, West	nil	2,000
	Germany	Jan short-time, West	44,000	-80,000
	Germany	Jan unemployment, East	45,000	24,000
	Canada	Nov labour income, % seas adj**	2.1%	2.1%
Wed	France	Jan investment survey	–	–
Feb 9	Canada	Dec motor vehicle sales*	-1.7%	0.6%
Thur	US	Initial claims w/e Feb 5	375,000	422,000
Feb 10	US	State benefits w/e Jan 29	–	2.85m
	US	M1 w/e Jan 31	$2.6bn	$3.4bn
	US	M2 w/e Jan 31	$0.5bn	-$1bn
Thur	US	M3 w/e Jan 31	$1.5bn	-$5.3bn
Feb 10	US	Monthly M1 Jan	$5.6bn	$6bn
(cont)	US	M2	$7bn	$6.8bn
	US	M3	$3.8bn	$11.3bn
	Aus'lia	Jan unemployment seas adj	10.6%	–
	Aus'lia	Jan employment seas adj	9,500	10,700
	Norway	Jan consumer prices index*	0.1%	-0.1%
	Norway	Jan consumer prices index**	1.6%	1.8%
Fri	US	Jan retail sales	0.3%	0.8%
Feb 11	US	Jan retail sales (ex autos)	0.2%	0.7
	US	Jan producer prices index	0.4%	-0.1%
	US	Ditto (excluding food and energy)	0.3%	0.2%
	UK	Non-visible trade global	-£900m	-£578m
	Spain	Jan consumer prices index*	0.9%	0.5%
	Spain	Jan consumer prices index**	4.9%	4.9%
During the week...				
	Germany	Jan cost of living – final*	–	0.2%
	Germany	Jan cost of living – final**	–	3.7%
	Germany	Dec retail sales – real**	-3%	-1.5%
	N'lands	Jan consumer prices index*	-0.1%	-0.3%
	N'lands	Jan consumer prices index**	2%	1.7%
	Spain	Jan unemployment registrations	17.6%	17.5%

*month on month, **year on year, ***qtr on qtr. Statistics, courtesy MMS International.

MONDAY PRIZE CROSSWORD

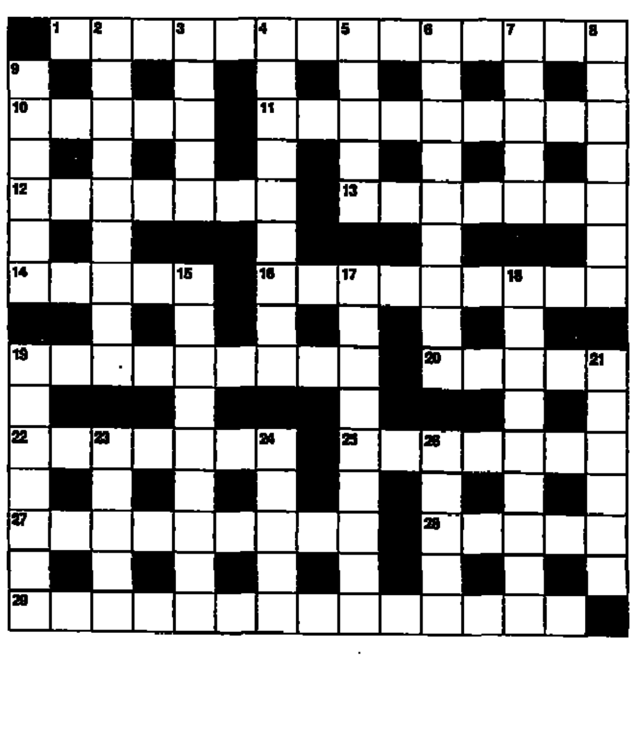
No.8,373 Set by DANTE

ACROSS

1 Deep south (9,5)
10 They're inclined to be dishonest schemes (5)
11 Changed round when the batting team has been dismissed (6,3)
12 "Yield" as against "surrender" (7)
13 Warn off Harry – it may have a tusk! (7)
14 Establish a lead in tennis? (3,2)
16 Valued a variety of male bird (9)
19 Lead astray (9)
20 Inflexibly formal (5)
22 Ponders devious answer (7)
25 Left society (7)
27 Lionesses, making no sound (9)
28 Steel or brass (5)
29 Hitching post? (8,6)

DOWN

2 Proposes someone from Minnesota (9)
3 A short island passage (5)
4 Part of the tide of lawlessness? (5,4)
5 Dramatist who was successful in exposing glib sentimentality (5)
6 Military command to requisition weapons (5,4)
7 He grasps a policeman in upset, it will mean time (5)
8 Entail a change of name for a girl (7)
9 Summary of new prices (6)
15 They give advancement to PR men (9)
17 Nothing to show this is a political statement (9)
18 Curiosities from a barbaric organisation at the start of the century (4-1-4)
19 Ancient poetic character (7)
21 Tie down unruly set in the cooler (6)
23 Music in the playground (5)
24 Are sickly, under the doctor, and gloomy (5)
26 Outlaw gets very loud on port in Scotland (5)



A prize of a Pelikan New Classic 390 fountain pen for the first correct solution opened and five runner-up prizes of £35 Pelikan vouchers will be awarded. Solutions by Thursday February 17, marked Monday Crossword 8,373 on the envelope, to the Financial Times, 1 Southwark Bridge, London SE1 9HL. Solution on Monday February 21.

Name..

Address...

Winners 8,361

I.D. Thomson, Clitheroe, Lancs
M.W. Battley, Leigh-on-Sea, Essex
Mrs C. Fang, Liverpool
D. Griffiths, Hampton Wick, Surrey
J.R.E. Lumb, Marsworth, Herts
A.R. Neale, Manama, Bahrain

Solution 8,361

R	O	B	U	S	T		B	R	I	G	A	N	D	S
E		U		H				O		R		O		H
S	A	F	A	R	I		C	U	R	A	T	I	V	E
T		F		I		I		T		N		S		A
F	R	A	G	M	E	N	T		A	D	V	E	N	T
U		L		P		F		D		S				H
L	O	O	K		B	L	U	E	B	O	T	T	L	E
		E		T		A		C		N		O		
A	B	S	T	E	N	T	I	O	N		G	R	I	D
I				R		E		Y		E		M		A
R	E	T	O	R	T		B	E	A	D	Y	E	Y	E
L		I		I		D		D		W		N		M
I	N	T	H	E	R	E	D		C	A	S	T	R	O
N		H		R		A				R		O		N
E	V	E	N	S	O	N	G		A	D	O	R	E	S